



**AA INTERMEDIATE CO LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 JANUARY 2023**

**Company registration number: 05148845**

## Strategic report

### Principal activity, review of the business and future developments

The Company is a wholly owned subsidiary of AA MidCo Limited. The principal activities of the Company is that of a non-trading holding company. The principal activities of the AA Intermediate Co Limited Group ('the Group') are the provision of roadside assistance and the management of the AA's driving instructor franchise operations and the provision of insurance intermediary services authorised and regulated as a General Insurance Intermediary by the Financial Conduct Authority (FCA).

In the second year under new ownership and management of the AA, we had another year of strong financial and operational performance with growth in membership, revenue and Adjusted EBITDA<sup>1</sup> across the Group. We demonstrated highly resilient and recurring revenues, an ability to offset inflationary cost pressures and as a result, generated strong operating cash flow. We continued to provide our customers with exceptional service, and made excellent progress with our transformation programme, despite a challenging external environment.

### Strong progress in a challenging macro environment

FY23 turned out to be a year with more macroeconomic challenges than anticipated, including material cost inflation, labour shortages and ongoing supply chain disruptions. Against this backdrop, we are proud to have consolidated our market leadership in Roadside Assistance, with more than 40% share of the UK consumer market and 60% share of the B2B market. Our 2,700 dedicated patrols rescue 3.2m customers at the roadside each year, more than any of our competitors, fixing 4 in 5 vehicles at the roadside with unrivalled service levels.

This year, we were also delighted to be awarded an unparalleled fifth consecutive Which? Recommended Provider rating, recognising not only the breadth of knowledge and the courtesy of our patrols, but also commenting on the effectiveness of our contact centre agents.

Alongside growth in Roadside Assistance, we have further built on our wide portfolio of complementary businesses supporting customers across their driving lifecycle including growing our AA and BSM Driving schools, our Insurance businesses, maintenance and repair (SMR) garage services and our AA Cars and Financial services businesses.

### Accelerating growth in Roadside Business to Consumer and Business to Business

In our Roadside business, we delivered growth in both revenue and Adjusted EBITDA<sup>1</sup>, with margins remaining strong. Paid membership holdings increased by 2.4% to 3.252m (2022: 3.177m) enabled by our transformed web journey delivering a 2% improvement in conversion rate. Our investment in core IT platforms and further enhanced customer value management enabled an improvement on our renewal rate to 84.4% (2022: 84.1%), under our new retention measure, despite cost-of-living pressures and supported by our market-leading service at the roadside. Under the old measure, retention rate was 80.3% (2022: 80.8%).

During the year we have revised the basis of average income per paid personal member to include motor insurance income from members. Under this new basis, average income per paid personal member has increased in the year by £5 to £190 (2022: £185) reflecting targeted pricing actions, strong brand stretch and early success of our cross-sell focus. Under the old basis, average income per paid personal member has increased by £7 to £176 (2022: £169).

<sup>1</sup> Non-Generally Accepted Accounting Principles (GAAP) measures explained on pages 5 and 6.

## Strategic report (continued)

### Accelerating growth in Roadside Business to Consumer and Business to Business (continued)

In our B2B business we acquired two significant new breakdown assistance contracts from NatWest and Nationwide, increasing our business customer holdings to 10.6m (2022: 8.8m). Through these partnerships, customers will receive our award-winning roadside assistance services which they can access fully through digital channels, including the AA app. In addition, we successfully retained or extended all our major core roadside contracts which were due for renewal this year, including amongst others JLR, VWG, Ford, Suzuki, Lotus, Arval, Hertz, Zenith and Admiral. Overall income for B2B grew by 6.2% reflecting the significant increase in holdings, the benefit of higher pay-for-use income from the breakdowns we serviced and the additional services that we provided in supporting our motor manufacturing partners.

### Continued investment and improvement in customer service and operations

We invested in growing the number of patrols we have on the road, adding approximately 130 during FY23 allowing us to increase the proportion of AA Patrol attendance, rather than a third-party partner, when compared to FY22. That resulted in an improved number of first-time fix rates, getting our members on their way sooner. We also almost doubled the proportion of remote (phone) fixes through our enhanced data capabilities providing our members with a faster fix at a lower cost to the AA.

We continue to invest in digitising our customer journeys and encouraging customer adoption. Customers reporting a breakdown via the app without any interaction with our call centre increased by 15% year on year to 40% with our new B2B customer accounts at NatWest and Nationwide being added to our existing digitally connected breakdown reporting capability.

### Insurance growth despite external pressures

Our motor policy book returned to growth with a 4% increase, finishing the year on 1,073,000 policies (2022: 1,027,000) carefully balancing growth with profitability and management of claims inflation. Our home book decreased by 13% to 782,000 (2022: 896,000), following a strategic prioritisation of motor insurance growth in a challenging Insurance environment. During the year, we continued to make improvements in our customer journey which helped to deliver consistent and healthy cross-sell conversions into our Roadside business with a third of all new business now simultaneously buying roadside cover.

At the end of FY22, we successfully implemented changes in our pricing models in order to comply with the requirements of the FCA's GIPP rules, whilst continuing to drive new business volumes and increase customer value. Our total average income per insurance policy reduced to £43 (2022: £47) with lower broker income from lower motor renewal commissions. Driven by the challenging external environment, Adjusted EBITDA in our insurance business reduced by £7m to £27m (2022: £34m).

Accident Assist, our in-house claims management proposition launched in FY21, is performing strongly from a volume and margin perspective. Accident Assist services are actively marketed to our B2C membership base, which has improved further following the launch of an electronic accident notification to our AA App.

### Strong performance in developing businesses

Our SMR business increased volumes driven by our B2C proposition, Smart Care and our B2B clients. We continue to provide SMR services to LeasePlan and secured Lex Autolease and Novuna as new clients during FY23. We successfully launched our first Autocentre in Dartford in the first half of the year, as we begin to expand into more areas of the SMR value chain and utilise the strength of our brand.

Driving Schools benefitted from pent up demand for driving lessons following the easing of Covid-19 restrictions. Our driving instructor base grew by 22% from 2,420 to 2,957, as we successfully increased awareness for our driving instructor programme resulting in a 40% increase in the number of instructors trained in FY23. AA Cars, our online used cars and vans platform, continued on its recovery trajectory, despite the continued suppression of the UK used car market, driven in part by longer wait times for new cars as production failed to meet demand with manufacturers experiencing their own supply chain issues.

## Strategic report (continued)

### Strong performance in developing businesses (continued)

The Drivetech business remains stable despite the termination of one speed awareness contract in the year.

### Strong support from our shareholders

Following Warburg Pincus and TowerBrook Capital Partners' acquisition of the AA in March 2021, we have continued to invest in the future of the AA, whilst maintaining a deleveraging trajectory. Capital investment of £79m in FY23 (2022: £77m) has gone into core re-platforming across Roadside and Insurance, improving our digital and data infrastructure and developing new propositions for our B2B and B2C customers.

### Progressing with our Strategy

Our long-term strategic vision is to build a unique ecosystem of propositions that creates confidence for drivers, now and for the future. We continue to believe that the strategy we outlined in FY22 sets us on the right course:

- **Horizon 1:** Optimising the core, modernising the AA to drive growth and profitability in the core business
- **Horizon 2:** Extending the business to develop new propositions and services to future proof the business
- **Horizon 3:** Monetising innovation to develop new revenue streams in the emerging automotive value chain

#### *Horizon 1: Optimising the core*

Horizon 1 activity focuses on the most critical current value levers to deliver membership, revenue growth and improve operating efficiency. Horizon 1 activity is well underway and is now delivering tangible commercial and operational results.

Digital activity in Horizon 1 has been focused on improving customer journeys to optimise conversion, enhance persistency and streamline customer value management. Redesigning customer journeys, in addition to improving our pricing and customer communication, has led to conversion and retention rate improvements for the Roadside business. Within Insurance, we launched the BEAM Insurance brand in May to increase the Broker footprint. We are continuing to improve efficiency and productivity by digitising customer journeys and streamlining processes. We have continued to invest in our underlying systems, infrastructure, and digital capabilities. 40% of consumer breakdowns are now reported digitally, either online or through the AA app, enabling us to improve customer outcomes effectively and improve efficiency. The core Roadside re-platforming programme has been completed with the vast majority of policies now on the new platform, and our insurance business transitioning to a new platform in FY24.

#### *Horizon 2: Extending the business*

Horizon 2 initiatives are focused on extending current products and services to meet our customers' ever-changing needs and access a wider target revenue pool in doing so. As the transition to Electric Vehicles (EVs) gains speed we are future-proofing our patrol force, with 72% of patrols now trained to EV Level 2, and we will continue to invest in training our patrols to EV Level 3 in FY24. In FY23 we launched an EV Driving School proposition offering new drivers the opportunity to learn how to drive in an EV. Looking forward, we are developing solutions to support our EV customers whether it be from point of purchase or during journeys, for example by assisting them to address 'range anxiety'.

This year we launched a digital proposition for our Accident Assist service where customers can report an accident via our app. In November, we introduced a new webchat capability in our contact centres, offering our customers a quick and easy way to get in touch with us, driving improved customer outcomes and operating efficiency.

We have also invested in the research and development of vehicle data-based propositions and are expecting to launch the first proposition to the market in FY24. This proposition innovation allows us to move ahead of the market and leverage our group assets in new ways. The AA's impact on society and the planet are important, and our Environmental, Social and Governance (ESG) activities are a vital part of our business. We believe we have a key role in helping to reduce the environmental impact of driving, both through adapting our own operations, and supporting our customers in adapting their activities.

## Strategic report (continued)

### Progressing with our Strategy (continued)

#### *Horizon 2: Extending the business (continued)*

We have included in our reporting our key environment, social and corporate governance updates. However, this is just a small part of what we do, and we will be releasing our second annual ESG report in the coming months to share our progress on ESG activities in the last twelve months.

#### *Horizon 3: Monetising innovation*

In Horizon 3, we will build new propositions capitalising on opportunities across the automotive and mobility value chains, using our proprietary assets such as historical breakdown data and leveraging our relationships with third parties. We have started to progress here with our investment in vehicle data capture and insights and expect to ramp up our activities in this space over the coming years.

We will measure our success through the strategic priorities outlined above.

### Business performance review

The Directors present the consolidated financial statements of AA Intermediate Co Limited (“the Company”) and its subsidiary undertakings (together “the Group”) for the year ended 31 January 2023. The Company is an Obligor and a parent company of each of the other Obligors that provide security and guarantees under the financing arrangements entered into by the AA on 2 July 2013. The Company’s immediate parent is AA Mid Co Limited. There is no material difference in the financial conditions and results of operations between the AA Intermediate Co Limited group and the AA Mid Co Limited group.

#### *Roadside*

Roadside includes Business-to-consumer (B2C), Business-to-business (B2B) and Roadside Other. Roadside performance is driven by our personal membership base and supported by our business customer (B2B) base, underpinning the scale of our operations which is critical to our success. Each provide approximately half the jobs for the patrol force. We have two franchised driving schools, the AA and BSM, providing driving lessons for learners each year. Drivetech is the market leader in driver education including Driver Awareness courses which are offered by police forces.

#### *Insurance*

Insurance includes Insurance Services, comprising our Insurance Broker and our Financial Services partnership with Bank of Ireland and our AA Cars proposition.

Our key performance indicators (KPIs) measure progress against our strategy.

	2023	2022
<b>Roadside</b>		
Paid personal members excluding free memberships (thousands)	3,252	3,177
Average income per paid personal member including motor members (£)	190	185
Business customers (thousands)	10,618	8,842
Average income per business customer (£)	23	23
Breakdowns attended (thousands)	3,179	3,072
<b>Insurance</b>		
Average income per policy (£)	43	47
Insurance policies (thousands)	1,855	1,923
<b>Borrowings</b>		
	Covenant	
Class B leverage ratio <sup>1</sup>	6.7x	7.1x
Senior Leverage ratio <sup>2</sup>	5.8x	6.2x
Class A Free Cash Flow: Debt Service <sup>3</sup>	>1.35x	2.9x
		3.1x

<sup>1</sup> Ratio of Net WBS Debt to AA Intermediate Co Limited group debt covenant EBITDA.

<sup>2</sup> Ratio of Net Senior Secured Debt to AA Intermediate Co Limited group debt covenant EBITDA.

<sup>3</sup> Ratio of free cash flow to proforma debt service relating to the Senior Term Facility and Class A Notes.

## Strategic report (continued)

### Business performance review (continued)

During the year, we have demonstrated our highly resilient and recurring revenues with strong operating margins, underpinned by robust operating cash flow generation, the core financial characteristics of our business.

We have continued to grow and are pleased to see a 2% increase in B2C membership figures, 20% increase in our B2B membership and a 4% increase in Motor Insurance policies. Despite inflationary cost pressures, Adjusted EBITDA and Reported EBITDA (previously Trading EBITDA) have grown year-on-year, driven by improvement in our top line revenue of 6%.

Building on the positive momentum of the past two years, we have confidence in continued modest Adjusted EBITDA growth and positive cash flow. Underpinned by our improved capital structure, we will continue to make investments in both our core Roadside and Insurance platforms and the Horizon initiatives to build an AA of the future.

### Group Revenue

	2023 £m	2022 £m
<b>Revenue</b>		
Roadside	878	822
Insurance	116	118
<b>Revenue</b>	<b>994</b>	<b>940</b>

Our core Roadside business delivered significant top line growth with revenue up 7% from £822m to £878m driven by the increase in new business volumes seen in both business-to-consumer (B2C) and business-to-business (B2B) and continued expansion of our driving school and service maintenance and repair (SMR) businesses.

In Insurance, our strong brand and expansion of our accident assist business enabled us to offset the revenue impact from market volatility in new business and lower earnings on renewals following the implementation of the FCA's new General Insurance Pricing Practices (GIPP) rules on 1 January 2022. Overall insurance revenue decreased slightly to £116m (2022: £118m).

### Group Adjusted EBITDA

	2023 £m	2022 £m
Roadside	338	313
Insurance	27	34
<b>Adjusted EBITDA</b>	<b>365</b>	<b>347</b>
<b>Adjusted EBITDA Margin</b>	<b>36.7%</b>	<b>36.9%</b>

### Group Reported EBITDA

	2023 £m	2022 £m
Roadside	309	290
Insurance	27	34
<b>Reported EBITDA</b>	<b>336</b>	<b>324</b>
<b>Reported EBITDA Margin</b>	<b>33.8%</b>	<b>34.5%</b>

Note: Due to a change in accounting policy, during the year the Group began deferring Roadside acquisition costs, which has resulted in a restatement of the prior year financial statements (see note 37).

## Strategic report (continued)

### Business performance review (continued)

Adjusted EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of customer acquisition costs relating to third party commissions and fees, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.

Adjusted EBITDA has been presented as a new additional alternative performance measure in FY23 to enable a more consistent comparison of performance across the industry. A reconciliation to Operating Profit as presented in the income statement is shown below. Reported EBITDA (previously 'Trading EBITDA') is Adjusted EBITDA excluding the adjustment for amortisation of acquisition costs relating to third party commissions and fees.

Group Adjusted EBITDA grew from £347m in the prior year to £365m and Group Reported EBITDA grew from £324m to £336m. This reflected a strong volume growth in B2C holdings, B2B holdings and the Motor Insurance brokerage portfolio despite inflationary cost pressures and the tough economic environment in Insurance reducing renewal commission.

Roadside Adjusted EBITDA increased by 8% and Reported EBITDA increased by 7% respectively, with favourable trading performance in B2C, B2B, Prestige and Driving Schools partially offset by higher garaging spend due to the higher number of breakdowns. Insurance Adjusted and Reported EBITDA fell by 21% to £27m due to the lower motor renewal commissions. Market prices have increased during FY23 resulting in an improved H2 EBITDA margin.

Group Adjusted and Reported EBITDA margin were down slightly from 36.9% to 36.7% and 34.5% to 33.8% respectively, with resilient Roadside Adjusted and Reported EBITDA margins offsetting the anticipated reduction in Insurance trading margins due to the impact of lower motor renewal commissions noted above.

### Reconciliation of Adjusted and Reported EBITDA to Operating profit

	2023	2022
	£m	£m
<b>Adjusted EBITDA</b>	<b>365</b>	<b>347</b>
Amortisation of acquisition costs relating to third party commissions and fees	(29)	(23)
<b>Reported EBITDA</b>	<b>336</b>	<b>324</b>
Share-based payments	(2)	(5)
Pension service charge adjustment	(5)	(4)
Pension past service cost	-	(26)
Amortisation and depreciation	(102)	(97)
Impairment of property, plant and equipment	-	(11)
Impairment of held for sale	(1)	-
Impairment of goodwill	(6)	-
Adjusting operating items	(30)	(73)
<b>Operating profit</b>	<b>190</b>	<b>108</b>

In the current year, adjusting operating items of £30m include strategic review projects of £18m relating to transformation and organisational redesign, as well as £10m investment in a research project relating to a significant project in our connected car capability, with further research spend anticipated in FY24 to test a new offering. The project is expected to become business as usual in FY25 when the offering is expected to be launched nationwide. The investment spend is governed and approved by the AA Limited Board of Directors. Also included is £4m closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme, £2m transaction fees related to the acquisition in FY22, £2m cost-of-living payments, £1m of impairment of investments in joint ventures and £1m relating to legal costs on a claim on which a judgement was favourably handed down in January 2023 and was successfully defended on all material elements, partly offset by £8m profit on sale of fixed assets.

## Strategic report (continued)

### Business performance review (continued)

#### Operating profit

	Roadside £m	Insurance £m	2023 Group £m	Roadside £m	Insurance £m	2022 Group £m
<b>Adjusted EBITDA</b>	<b>338</b>	<b>27</b>	<b>365</b>	313	34	347
Amortisation of acquisition costs	(29)	-	(29)	(23)	-	(23)
<b>Reported EBITDA</b>	<b>309</b>	<b>27</b>	<b>336</b>	290	34	324
Share-based payments	(2)	-	(2)	(4)	(1)	(5)
Pension service charge adjustment	(4)	(1)	(5)	(3)	(1)	(4)
Pension past service cost	-	-	-	(23)	(3)	(26)
Amortisation and depreciation	(90)	(12)	(102)	(86)	(11)	(97)
Impairment of property, plant and equipment	-	-	-	(7)	(4)	(11)
Impairment of held for sale	-	(1)	(1)	-	-	-
Impairment of goodwill	(6)	-	(6)	-	-	-
Operating profit before adjusting items	<b>207</b>	<b>13</b>	<b>220</b>	167	14	181
Adjusting operating items			(30)			(73)
<b>Operating profit</b>			<b>190</b>			108

Operating profit increased by £82m to £190m. This was predominately attributable to one off items in the prior year, including acquisition transaction costs of £46m, pension past service costs of £26m and impairment in relation to property plant and equipment of £11m. In the current year, we report stronger trading as described above, but also £5m higher amortisation and depreciation reflecting ongoing investment in the business. In addition, the current year result includes £6m impairment of goodwill relating to the Drivetech business and £30m of adjusting operating items explained earlier.

#### Share schemes

Basing TopCo Limited, an indirect parent company of AA Intermediate Co Limited operates a management equity plan which grants senior management awards with vesting conditions linked to their continued employment. This plan has been accounted for as an equity settled share-based payment, and where the participants directly benefit the AA Intermediate Co Limited Group, the share-based payment charge has been accounted for within the Group (see note 33).

In the year ended 31 January 2023, the Group implemented a Long-Term Incentive Plan, granting benefits to key members of senior management. These benefits vest based on certain performance conditions. This scheme is accounted for as a share-based payment scheme (see note 33).

## Strategic report (continued)

### Business performance review (continued)

#### Net finance costs

	2023 £m	2022 £m
Interest on external borrowings	123	125
Finance charges payable on lease liabilities	2	2
Interest income on bank deposits	(2)	-
Gain from release of Class 2 B notes	-	(29)
<b>Total ongoing cash net finance costs</b>	<b>123</b>	<b>98</b>
Ongoing amortisation of debt issue fees	5	9
Net finance (income)/expense on defined benefit pension schemes	(3)	2
Fair value movement on interest rate swap	-	(1)
<b>Total ongoing non-cash net finance costs</b>	<b>2</b>	<b>10</b>
<b>Adjusting finance costs</b>	<b>2</b>	<b>5</b>
<b>Total net finance costs</b>	<b>127</b>	<b>113</b>

Net finance costs increased in the year by £14m to £127m (2022: £113m). The current year experienced lower amortisation of debt issue fees following the refinancing of the A5 Notes in the prior year. Adjusting costs were higher in the prior year reflecting the costs associated with refinancing the A5 Notes, B2 Notes, working capital facility and liquidity facility.

In the current year, the Group issued £250m of Class A10 Notes in exchange for £250m of Class A6 Notes. This incurred £2m of adjusting finance costs, consisting of £1m write-off of unamortised issue fees associated with the A6 Notes and £1m of early repayment penalties following repayment of the A6 Notes.

Current year net finance costs also include £3m pension interest income mainly relating to the UK defined benefit scheme and £2m interest income on bank deposits. The prior year included a one off £29m gain from the release of Class B2 note (2022: £nil).

#### Profit before tax

On account of the prior year one off items outlined above, the FY23 result improved to a profit before tax of £63m (2022: loss of £5m).

#### Taxation

The tax charge for the year increased by £4m to £5m (2022: tax charge of £1m) largely reflecting the impact of the adjustments in respect of prior years on the standard rate of tax (see note 9). The tax charge consists of a current tax credit of £3m (2022: £12m charge) and a deferred tax charge of £8m (2022: credit of £11m). The effective tax rate was 8% (2022: (20%)).

#### Profit after tax

We made a profit after tax of £58m (2022: loss of £6m). The growth is driven by improved trading described above as well as transaction fees associated with the acquisition within the prior year.

#### Assets held for sale

During the prior year, the sale of two properties was approved. The sale of one of these properties completed in the year and the sale of the second property has completed post year end.

#### Goodwill

An impairment review was undertaken and impairment of £6m has been recognised in relation to Drivotech goodwill, reducing it to £25m (2022: £31m) (see note 25).

## Strategic report (continued)

### Business performance review (continued)

#### Goodwill (continued)

This is due to lower volumes following the termination of one contract providing speed awareness courses. The business remains competitive in the market and has several other contracts in place. It also expects to continue to be profitable and cash generative going forward.

#### Cash flow and liquidity

Net cash flows from operating activities in the year were an inflow of £252m (2022: £252m). The working capital and provisions outflow of £18m reflects the timing of receipts and payments as well as the post Covid-19 expansion of our accident assist business.

The cash flows from operating activities are stated net of cash outflows relating to operating adjusting items of £36m (2022: £86m). These items comprised £17m relating to strategic initiatives (2022: £12m), £10m relating to the research project in our connected car capability (2022: £nil), £4m related to the closure of the CARE section of the AAUK pension scheme and transitional agreement made with employees in that scheme (2022: £5m), £2m cost of living payments (2022: £nil), £2m acquisition transaction fees (2022: £68m) and £1m legal costs (2022: £1m). Note: proceeds relating to profit on sale of fixed assets within adjusting operating items are shown within proceeds from sale of fixed assets line item.

Capital expenditure was up £2m at £79m (2022: £77m) ensuring we continue to be well invested as we deliver on Horizon 1 and Horizon 2 generating significant benefits.

Refinancing inflows of £7m in the current year reflect the £10m settlement of a gilt-lock part offset by costs associated with refinancing the £250m A6 loan Notes for £250m A10 Notes in July 2022. The prior year was an outflow of £68m reflecting an equity injection from AA Midcoo Limited and refinancing of the Class A5 and Class B2 Notes.

We end the year with a strong cash position, remain well within our financial covenants, have good levels of liquidity and continue to generate positive operating cash flow.

#### Capital management

Capital is represented by our net debt position. As at 31 January 2023, net debt was £2.3bn. The Group aims to reduce both the amount of net debt and the cost of servicing it over time through the successful delivery of our strategy as well as a proactive approach to managing our debt. We continue to have significant headroom in respect of our covenants and the Group has a Working Capital Facility available of £56m, of which £46m is available for cash drawings and remained undrawn at 31 January 2023.

The Group is already well advanced in refinancing the £550m A7 Notes, maturing in July 2024. In February 2023 AA Bond Co Limited issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023 tendered by existing note holders as part of a liability management exercise. The remaining surplus cash proceeds of £98m were transferred to a mandatory prepayment Account to be held for redemption of Class A7 Notes.

In February 2023, the Group renewed and increased its Liquidity Facility by £15m to a total of £175m which remains undrawn and on 10 February 2023 the Group increased its Senior Term Facility by £15m to a total of £165m. The additional £15m Senior Term Facility commitments were drawn down on 24 March 2023 and a new interest rate swap was transacted which exchanges SONIA for a fixed interest rate of 4.14% thereby fixing the incremental £15m of Senior Term Facility borrowings at 7.17% through to 10 March 2026.

## Strategic report (continued)

### Business performance review (continued)

#### Capital management (continued)

The cash within the ring-fenced group headed by AA Mid Co Limited (the parent company of AA Intermediate Co Limited) is part of the whole business securitisation (WBS). A dividend cannot be paid from the ring-fenced group until a number of criteria have been met and therefore the Group's policy is to pay dividends from the AA Mid Co Limited group in accordance with the terms of the debt covenants as outlined below.

The Class A Notes only permit the release of cash providing the Senior Leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The Class B3 Note restrictions generally only permit the release of cash providing the Fixed Charge Coverage ratio after payment is more than 2:1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income.

The Class A and Class B3 Notes therefore place restrictions on the Group's ability to upstream cash from the key trading companies to pay dividends and undertake those other finance activities which are not restricted.

#### Key Cash Release Metrics

	2023	2022
Senior Leverage ratio <sup>1</sup>	<b>5.8x</b>	6.2x
Excess cash flow <sup>2</sup>	<b>£278m</b>	£228m
Fixed Charge Coverage ratio <sup>3</sup>	<b>2.6x</b>	2.7x
Consolidated net income <sup>4</sup>	<b>£452m</b>	£401m

<sup>1</sup> Ratio of Net Senior Secured Debt to AA Intermediate Co Limited group debt covenant EBITDA.

<sup>2</sup> Cumulative free cash flow since 1 February 2013, reduced by dividends paid by the AA Intermediate Co Limited group and adjusted for items required by the financing documents.

<sup>3</sup> Ratio of fixed finance charges to debt covenant EBITDA of AA Intermediate Co Limited group for the last 12 months.

<sup>4</sup> Cumulative profit after tax, since 1 May 2013, adjusted for items required by the financing documents and reduced by dividends paid by the AA Intermediate Co Limited group.

#### Pension liabilities

The overall surplus of £130m as at 31 January 2022 has moved to a deficit of £169m as at 31 January 2023, which represents a change of £299m over the year, driven primarily by movements in the AAUK scheme position.

Gilt yields increased significantly over FY23, with a high level of volatility seen during September and October in particular. The AAUK scheme invests part of its assets in a Liability Driven Investment ('LDI') mandate, held for risk management purposes. Specifically, this mandate has historically been designed to "hedge" the impact on the value of the AAUK scheme's liabilities from changes in gilt yields (and inflation), to help to protect the AAUK scheme's funding position. Gilt yield increases to mid-October led to a significant fall in the size of the liabilities, with a broadly corresponding fall in LDI assets.

Following the Bank of England intervention in October, gilt yields fell to lower levels. This led to an increase in the value of the AAUK scheme's liabilities – with a lower level of hedging, the asset value lagged behind. This had a meaningful impact in reducing the IAS 19 surplus from earlier in FY23. The IAS 19 position suffered further from (i) funding liabilities being larger than IAS 19 liabilities, plus contractions in AA-rated corporate bond yields relative to gilts, meaning that the fall in hedging assets (linked to the funding basis) were relatively larger than IAS 19 liability falls, (ii) worse than assumed performance of other asset classes and (iii) very high price inflation experienced relative to long-term expectations at the start of the year. In aggregate, these impacts meant that the AAUK scheme has moved into a statement of financial position deficit at 31 January 2023.

## Strategic report (continued)

### Pension liabilities (continued)

In February 2023, the actuarial triennial review for the AAUK pension scheme was completed as at 31 March 2022. This resulted in a significant reduction of the technical provisions deficit of around 60% from £131m as at 31 March 2019 to £53m. The Asset-Backed Funding mechanism, which provides a long-term deficit reduction plan and additional contribution schedule remain in place from the 2019 valuation. Under the asset-back funding scheme, the Group makes an annual deficit reduction contribution of £15m increasing annually with inflation until October 2038, or until the AAUK scheme funding deficit is removed if earlier, secured on the Group's brands. Under the additional contribution schedule (i.e. contributions in excess of the Asset-Backed Funding mechanism), the Group pays £12m per annum until July 2025. The trustee meets its own costs of running the AAUK scheme.

### Risk Management

Effective risk management remains key to the delivery of the AA's strategic objectives.

### AA Risk Management Framework

#### Overall Responsibility

The Board of AA Limited is responsible for determining the level of risk that the AA is prepared to take, or that it is willing to accept, in order to achieve its strategic objectives. The levels of risk are articulated through a series of risk appetite statements and we monitor ourselves closely against the statements through our risk governance and our risk management framework. Further information about the corporate governance arrangements for the AA is set out in the Director's Report on pages 46-51 of the AA Limited Annual Report and Accounts.

#### Risk Governance

The AA operates a three lines of defence model to ensure that its risks and opportunities are identified, assessed, monitored and managed in line with its stated risk appetite. The three lines of defence model can be summarised as follows:

- First line of defence: the business units that run the business, they are accountable for the day-to-day management of the AA, which includes identifying and managing their risks;
- Second line of defence: the AA's Group Risk and Compliance function, they are accountable for providing oversight, challenge and advice to the first line; and
- Third line of defence: the AA's Internal Audit function, they are accountable for providing assurance to the business by performing independent reviews of the first and second lines of defence.

## Strategic report (continued)

### Risk management framework

The AA's risk management framework aims to ensure that:

- risks are made visible;
- risks are discussed and understood;
- risks are owned and managed;
- appropriate action is taken;
- risks are used for opportunities; and
- we learn from our risk-taking.

The risk management framework is comprised of the five pillars set out below.

Risk culture and governance	The processes and structures to demonstrate to the AA Limited Board that effective risk management, oversight and assurance is being undertaken for all key risks faced by the AA.
Strategy and objectives	The process to ensure that risk is considered as part of strategy and objectives, including the direction it sets for taking, avoiding and considering opportunity from risk.
Risk identification and prioritisation	A set of key risk categories to identify where the AA has, or is likely to have, material risk exposures and the activities we perform to prioritise our actions.
Risk management and controls	A set of processes to review and assess the risk and control environment. Risks are assessed on an inherent (no controls), residual (with controls) and target basis to help senior management understand and manage their risk exposures.
Risk reporting and communication	The information and reporting in place to support senior management in discharging their risk management accountabilities effectively and to help them make informed, risk-based decisions.

### Principal Risk and Opportunities

Principal risks and opportunities are defined as the risks and opportunities that are likely to have a material impact on the AA's business strategy.

The principal risks faced by the AA over the last year are summarised in the table below. We monitor and assess these risks very closely to ensure they are managed appropriately and effectively.

#### Risk Trend key:

- ▲ Risk exposure has increased
- ▼ Risk exposure has decreased
- ▶ Risk exposure has remained the same

## Strategic report (continued)

### Risk Management (continued)

#### Principal Risk and Opportunities (continued)

<p><b>Customer risk</b> The risk that we fail to constantly monitor, manage and develop the interaction between our agents and our customers to ensure fair treatment and good outcomes</p>	<p><i>Potential impact</i> Products and services continually evolve in the market and as customer needs change, there is a risk that products do not perform as customers expect or that they no longer deliver good customer outcomes.</p>
	<p><i>Mitigation</i> We continually review and adapt our products and services to ensure we deliver good outcomes. We have also been closely monitoring the rising cost of living crisis – we run a financial difficulty forum to identify how we can support our customers.</p>
<p><b>Risk trend</b> ▶</p>	<p>We are also preparing ourselves for our regulator's incoming cornerstone regulation, Consumer Duty. We have an extensive programme of work in place to review our existing frameworks, structures and processes to proactively look for opportunities to improve and enhance the outcomes we deliver to our customers.</p>
<p><b>People risk</b> The risk that we are unable to attract and retain the critical skills, knowledge and experience we need to deliver our services</p>	<p><i>Potential impact</i> Covid-19, Brexit and changing workforce expectations in terms of location, flexibility and pay have all contributed to a shrinking workforce, with fewer people in the talent pool across the UK.</p>
	<p><i>Mitigation</i> Our people play a critical role in the success of our business and in our future growth. We have made some significant enhancements to our Employee Value Proposition in FY23 and continue to ensure we adapt and respond to a changing environment.</p>
<p><b>Risk trend</b> ▲</p>	
<p><b>Health and Safety risk</b> The risk we are unable to maintain the safety of our workforce and customers</p>	<p><i>Potential impact</i> Vehicles breaking down at the roadside is inherently dangerous - maintaining a safe environment for our members and for our workforce is absolutely critical to our business.</p>
	<p><i>Mitigation</i> The AA has a robust and externally audited integrated health, safety and environmental (HS&amp;E) management system. We regularly review all our HS&amp;E risks to ensure that our control environment remains strong and effective. We have a dedicated team of health and safety advisers who are all members of the Institution of Occupational Safety and Health - we deploy best practice internally and externally.</p>
<p><b>Risk trend</b> ▶</p>	<p>We are an active member of SURVIVE, the industry group working towards improving safety for those working at the roadside and we have an external expert chair of our core Health and Safety Committee, to ensure good governance and independent scrutiny.</p>

## Strategic report (continued)

### Risk Management (continued)

#### Principal Risk and Opportunities (continued)

##### Cyber security

The risk of failure to detect fraudulent or unauthorised modification of IT resources, physical or virtual theft of assets and events that compromise critical data

##### Potential impact

Cyber attacks are an ever increasing threat for businesses. This is a risk that has heightened as a result of the increase in state-sponsored cyber attacks and the development of more sophisticated ransomware attacks.

##### Mitigation

We continue to operate our clearly defined cyber security strategy and we have invested in resources to further strengthen our controls. We benchmark our security controls against the Standard for Information Security (ISO27001) and an independent third party performs an annual review to provide assurance that our controls remain effective.

##### Risk trend



##### Financial risk

The risk that the Company has insufficient liquid funds required for the business to operate, is unable to refinance its maturing debt, or unable to do this at affordable cost

##### Potential impact

The ability to finance is critical to the ongoing existence and operation of the Group. Credit rating, stakeholder management, financial market conditions and interest rates are all important factors. In particular, financing costs have increased as a result of rising interest rates as the economy sees higher levels of inflation. The Company is an obligor of the financial indebtedness of the AA Intermediate Co Limited group which ringfences its debt within a whole business securitisation (WBS) structure. AA Intermediate Co Limited is a parent undertaking of the Company and part of the AA Limited group. The viability and financial success of the Company is therefore tied to the viability and financial success of the AA Intermediate Co Limited group.

##### Mitigation

Despite a challenging macroeconomic environment, the Group has completed a successful refinancing of its A6 Notes, issuing £250m of A10 Notes in FY23, as well as a partial refinancing of its £550m A7 Notes in FY24 and continues to seek to refinance bonds well ahead of their maturity dates. The Group is highly cash generative and has good levels of available cash as well as a Working Capital Facility of £56m, of which £46m is available for cash drawings allowing it to withstand such macroeconomic challenges.

##### Risk trend



### Emerging Risks

In addition to monitoring the risks currently faced by the AA, we identify risks and opportunities on the horizon i.e. the risks and opportunities that could have a material impact on the AA in the future but where the timescale and/ or impact due to the nature of the risks remains uncertain.

The monitoring and management of emerging risks is a key part of the AA's strategic risk management process since the risks and opportunities can lead to changes in business strategy or operational ways of working that support the AA in it delivering long-term value to members, customers, employees and sponsors.

Emerging risks are identified using a PESTLE analysis, which categorises the risks into six high level themes:

## Strategic report (continued)

### Risk Management (continued)

#### Emerging Risks (continued)

Risk Type	Examples
Political	<ul style="list-style-type: none"> <li>• Current tax policy or future tax policy</li> <li>• Stability of government</li> </ul>
Economic	<ul style="list-style-type: none"> <li>• Interest rates or exchange rates</li> <li>• Inflation</li> </ul>
Social	<ul style="list-style-type: none"> <li>• Consumer behaviour</li> <li>• Brand and image</li> </ul>
Technology	<ul style="list-style-type: none"> <li>• Competing technology development</li> <li>• Machine learning and artificial intelligence</li> </ul>
Legal	<ul style="list-style-type: none"> <li>• Regulatory change</li> <li>• Legislative change</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>• Climate change</li> <li>• Energy availability and cost</li> </ul>

We report on our emerging risks to our executive risk committee and relevant Group company Boards. The most notable emerging risks and opportunities for the AA are summarised below.

#### Government reform

The Department for Business and Trade (formerly the Department for Business, Energy and Industrial Strategy) published its plans to strengthen the UK's audit, corporate reporting and corporate governance systems. The proposed measures aim to enhance accountability across the business ecosystem and increase resilience and choice in the statutory audit market.

The AA has started to assess the potential impact and is making plans to respond to the expected future direction of financial reporting for in scope firms.

#### Climate Change and TCFD

The AA recognises that climate change poses a number of transitional and physical risks and opportunities for business, people and our communities. We already have a well embedded process for modelling the impact of climate change and related weather events within our Roadside Operations to ensure we have the right resources to meet our members' needs.

Over the last 12 months we have identified further key climate related risks (such as adverse weather events and energy usage), we have been developing financial modelling of the most material to our future strategy and we're embedding the management of climate-related risks into our broader risk management framework. These key activities form part of our commitments under the Task Force for Climate related Financial Disclosure's (TCFD) recommendations, which will be reported in FY24.

These key activities form part of our commitments under the Task Force for Climate related Financial Disclosure's (TCFD) recommendations, which will be reported in FY24.

We also recognise the critical importance of reducing our GHG emissions. We believe that driving doesn't have to cost the earth and that's why, as part of our ESG strategy, we are making a commitment to become Net Zero for our own emissions by 2035.

#### Global financial instability

Economic uncertainty is expected to remain high as a result of the geopolitical risks arising from the Russian war on Ukraine, a potential global banking crisis following the collapse of two U.S lenders, takeover of Credit Suisse and the UK's long term macroeconomic outlook. These are macroeconomic risks that we will continue to monitor through observation of the financial markets and the wider external environment.

## Strategic report (continued)

### Risk Management (continued)

#### Streamlined Energy & Carbon Reporting (SECR)

Climate change represents one of the greatest challenges facing our planet. At the AA, we are committed to supporting the transition to a low-carbon economy to meet the science-based recommendations of the Intergovernmental Panel on Climate Change (IPCC). Our emissions are generated across the AA's operations, including at sites, by vehicles and through colleague travel. For full details on the SECR of the Group please refer to pages 33 – 35 in the AA Limited Annual Report and Accounts 2023. There is no difference between the emissions reported at AA Limited Group and AA Intermediate Co Limited Group.

#### Directors' duties: s. 172 statement

Section 172 of the Companies Act 2006 (Section 172) requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The Board's aim is to ensure that its decisions follow a consistent process by considering the Company's strategic priorities, while balancing the interests of various stakeholders when making decisions. This Section 172 statement sets out how the Directors discharged their Section 172 responsibilities during FY23.

The Board considers the need to act fairly between stakeholders and continue to maintain high standards of business conduct. Nevertheless, the Board acknowledges that stakeholder interests may conflict with each other and that not every decision can result in a positive outcome for all stakeholders.

The Company is part of the AA Limited group, the ultimate parent of which was Basing Consortium Co Limited during FY23. Decisions, policies and procedures that may affect stakeholders were implemented at a AA Limited group level during the year and the Board oversees the application of these to the Company. The Board recognises that the Company's stakeholders include those that interact with the Company directly, in addition to those with indirect relationships in the context of the wider Basing Consortium Co Limited group.

#### Key stakeholders

The Board keeps the Company's key stakeholders under review to ensure due consideration is given to all relevant stakeholders in the context of principal decisions. During the year, the following key stakeholders were identified: our people, communities and societies, government and regulators, industry (including supply chain), investors and customers.

#### Board considerations

The Board considered how the Company currently engages with each of the key stakeholders listed above, as well as its future engagement strategy. This will ensure that due consideration is given to stakeholder views and interests, to the extent that they are relevant to any particular decision.

More information about how the Board engages with each of the stakeholders above, within the context of the wider AA Limited group, can be found in AA Limited's Annual Report and Accounts 2023.

#### Summary of business relationships

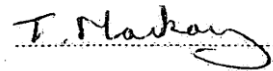
This Section 172 statement also satisfies the requirement in Part 4, Schedule 7 of the Large and Medium-sized Companies Regulations 2008 for certain large companies to disclose, either in their Directors' Report or in their Strategic Report, a statement of the company's engagement with suppliers, customers and other relevant parties.

## Strategic report (continued)

### Statement of employee engagement

The Company is part of the AA Limited group, the ultimate parent of which is Basing ConsortiumCo Limited. Decisions, policies and procedures that affect employees were implemented at the AA Limited group level during the year and the Board oversaw the application of these to the Company. More information about how the Group engages with employees, within the context of the wider AA Limited group, can be found in AA Limited's Annual Report and Accounts 2023 on page 50.

The financial statements on pages 29 to 91 were approved by the Board of Directors on 9 June 2023 and signed on its behalf by:



T O Mackay  
Director  
9 June 2023

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA  
Registered number: 05148845

## Directors' report

The Directors present their report and audited consolidated financial statements of AA Intermediate Co Limited and its subsidiary undertakings for the year ended 31 January 2023.

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

Marianne Neville, Director  
Tom Mackay, Chief Financial Officer

James Cox, Company Secretary

AA Intermediate Co Limited is a private company limited by shares, registered and domiciled in England and Wales, UK, whose registered address is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

### Directors' indemnities and insurance

The Company maintains appropriate directors' and officers' liability insurance cover. The Company also grants indemnities to each of its Directors to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by Section 234 of the Act) were in force during the year ended 31 January 2023 and remain in force, in relation to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors of the Group.

### Employee engagement

We remain committed to employee engagement throughout the business. Employees are kept updated on the AA's strategy and progress through regular communication emails and updates on the AA's intranet page. Further details of our workforce engagement and our people can be found on page 36 of the AA Limited's Annual Report and Accounts 2023. There are clear and transparent policies in place for employees to raise concerns about misconduct and unethical practices at the AA, which include but are not limited to: Whistleblowing Policy, Conflicts of Interest Policy, and Anti-Bribery and Allowable Gifts, Hospitality and Donations Policy.

The Board believes that a shared purpose, strategic vision and organisational culture across the organisation informs the management's decision-making and significant work has gone in to refreshing those elements during the course of the year. Regular employee engagement surveys address and monitor how well the organisational culture and values between senior management and their colleagues are embedded and aligned.

The latest AA Limited group employee engagement survey, held in January 2023, had a response rate of 84% and an employee engagement score of 67%. Read more about how the Board has engaged with our people in the stakeholder engagement summary on page 38 of the AA Limited's Annual Report and Accounts 2023.

### Employees with disabilities

The AA is proud of our policy that people with any disability should have full and fair consideration for all vacancies. The AA is a 'Disability Confident Committed employer – Level 1 and during the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria and we endeavour to retain and support employees in the workforce if they become disabled during employment. That support is provided in part through our 'Ability' employee network group.

To assist in the training, career development and promotion of disabled people, we have recently partnered with 10,000 Able Interns to offer support and unlock opportunities for them with the offer of a paid summer internship with the AA.

## Directors' report (continued)

### Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' confirmations

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

### Going concern

The Group's and the Company's business activities, future developments and its exposure to financial risks are described in the "Principal activity, review of the business and future developments" and "Risk management framework" sections on pages 1 to 17.

The Group and the Company has adequate financial resources due to the Group's net current asset position and the Company's net asset position. AA Intermediate Co Limited is a wholly owned subsidiary of the AA Limited group, hence the going concern status of the Group and the Company is linked to the wider AA Limited group which provides the cash required to meet the scheduled debt interest payments and principal repayments. The Company directors have reviewed projected cash flows of the AA Limited group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited directors, that the Group and Company has sufficient funds to continue trading during this period and the foreseeable future.

## Directors' report (continued)

### Going concern (continued)

The AA Limited group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of £129m of A7 Notes which have a maturity date of 31 July 2024. As at the date of approval of these financial statements, £421m of the original £550m A7 Notes has already been refinanced.

The Company directors have confirmed these points with the AA Limited group directors and have reviewed the projected cash flows of the AA Limited group for a period of at least one year from the date of approval of these financial statements. The Company directors have concluded, with the AA Limited directors, that they have confidence that the Company, the Group and the AA Limited group will have sufficient funds to continue trading during this period and the foreseeable future and will be able to secure financing so as to be able to continue to meet their liabilities as they fall due. For more detail see page 50-51 of the AA Limited group's Annual Report. For the AA Limited group's longer-term viability, it remains a key assumption of its directors that the AA Limited group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. However, as noted above, the refinancing of the Class A7 Notes, due on 31 July 2024, is currently in progress at the date of issue of these financial statements. AA Intermediate Co Limited is an obligor of the Group's borrowings and in the event the refinancing of the A7 Notes is not successful, the Group and Company may not be able to continue as a going concern. These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern for a period in excess of a year from the date of issue of these financial statements.

However, after making appropriate enquiries and considering the uncertainty described above, the Company's directors have, at the time of approving these financial statements, a reasonable expectation that the AA Limited group, the AA Intermediate Co group and the Company have adequate resources to continue in operational existence for the foreseeable future and, as a consequence, consider that it is appropriate to adopt the going concern basis in preparing these financial statements.

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

### Financial risk management

Our financial risk management objectives and policies can be found in note 27.

### Future developments

The Directors' comments on the future developments of the Company and Group are set out in the Strategic Report.

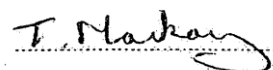
### Dividend

The Group did not pay or propose a dividend (2022: £nil) during the year.

### Events after the reporting period

Details of events after the reporting period can be found in note 38.

The financial statements on pages 29 to 91 were approved by the Board of Directors on 9 June 2023 and signed on its behalf by:



T O Mackay  
Chief Financial Officer  
9 June 2023

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA  
Registered number: 05148845

# Independent auditors' report to the members of AA Intermediate Co Limited

## Report on the audit of the financial statements

### Opinion

In our opinion:

- AA Intermediate Co Limited's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 January 2023 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 January 2023; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's and the Company's ability to continue as a going concern. The Company is an obligor of AA Intermediate Co Limited Group's borrowings and forms part of the corresponding debt security group for which the refinancing of the Class A7 Notes, due on 31 July 2024, is not committed at the date of issue of these financial statements. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

## Our audit approach

### Overview

#### Audit scope

- We conducted audit testing over six components.
- Four components were subject to an audit of their complete financial information.
- Specific audit procedures were performed on certain balances and transactions in respect of a further two components.
- Procedures were also performed at the Group level, including auditing the consolidation and financial statement disclosures, taxation, pension scheme balances, asset impairment assessments and cash balances within the Group which were not covered through the audit of the components referenced above.
- We obtained coverage of 91% of revenue.

#### Key audit matters

- Material uncertainty related to going concern
- Recognition of revenue in respect of the personal roadside business (Group)
- Valuation of net post-retirement benefit obligations (Group)
- Goodwill impairment assessment (Group)
- Investment in subsidiaries impairment assessment (Company)

#### Materiality

- Overall Group materiality: £8.0m (2022: £8.0m) based on approximately 2.5% of Reported EBITDA (formerly called Trading EBITDA in 2022) with adjustments (2022: approximately 2.5% of Trading EBITDA with adjustments).
- Overall Company materiality: £21.4m (2022: £21.4m) based on approximately 1% (2022: approximately 1%) of Total Assets, but for the purposes of the audit of the Group financial statements, we limited the Company materiality to £3.0m.
- Performance materiality: £6.0m (2022: £6.0m) (Group) and £16.0m (2022: £16.0m) (Company).

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Recognition of revenue in respect of the personal roadside business (Group)</i></p> <p>Refer to Note 1.3(m) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Note 2.</p> <p>The Group has recognised revenue of £506m in respect of the insured personal roadside business.</p> <p>There are known issues with the underlying policy management systems used in the personal roadside business and the way in which they account for revenue. A set of manual corrections are made each month, along with a series of standing provisions and other adjustments, to appropriately account for revenue.</p>	<p>We assessed the design and implementation of the insured personal roadside business revenue processes and related financial controls; however, we concluded that we would not rely on the controls over financial reporting and therefore we performed only substantive procedures in this area.</p> <p>For a sample of insured personal roadside contracts, we performed detailed testing of revenue transactions including agreeing to the underlying contracts, recalculating the revenue and deferred revenue recognised based on transactional data and contractual terms, and agreement to cash receipt.</p>

We focused on whether revenue from these policies was correctly recognised, and whether the corrections and standing provisions and other adjustments made are complete. Given the known issues, there is an increased completeness risk that there are undetected errors in the policy management system calculations. There is also an increased risk of error where manual corrections are made.

We performed detailed testing of the deferred revenue balances at period end to underlying contracts and recalculated the deferred revenue balance. We have understood the updated migration status of the underlying policy management systems and have performed substantive testing procedures over a sample of migrated policies.

We reviewed management's reconciliations of the revenue to be recognised as generated by the policy management systems to the revenue actually recognised in the general ledger, and tested a sample of the specific manual corrections, standing provisions and other adjustments posted by management to correct the known system errors as well as obtaining a full understanding of each of these.

We performed substantive testing procedures over the completeness of the monthly corrections, standing provisions and other adjustments through the following procedures: sample testing policies and tracing through any identified differences to the corresponding correction, provision or other adjustment made, obtaining an understanding of all policy types and ways of policy set up and the corresponding accounting entries for each of these, and understood the nature of complaints through review of the complaints log to understand whether these could be indicative of further unidentified issues. We have also followed up from the prior year on any releases and utilisations of provisions to ensure that these are properly accounted for.

We found no material misstatements from our testing.

*Valuation of net post-retirement benefit obligations (Group)*

Refer to Notes 1.3(l) and 1.3(u) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Note 24 to the financial statements.

The Group operates three defined benefit pension schemes, the most significant of which is the AA UK Pension Scheme (AA UK), which combined have a total net defined benefit pension deficit of £169m, moving from a surplus of £130m in 2022, comprising gross assets of £1,621m and gross liabilities of £1,790m.

Valuation of the liabilities requires significant levels of judgement and technical expertise in determining the appropriate assumptions to measure it. Changes in assumptions (including discount rate, mortality, inflation and pension increases) can have a material impact on the calculation of the liabilities either individually or in combination. The Directors used independent actuaries to prepare the year end valuation under International Accounting Standard 19, 'Employee benefits' ("IAS 19").

Valuation of the scheme assets requires judgement, due to the nature of certain complex and illiquid assets held, for which there are no quoted prices available. Of the total asset value held, the majority do not have a quoted price available. Prices are obtained directly from the relevant investment managers who apply judgement in valuing those assets. In addition, the bulk annuity policies held are valued using actuarial assumptions. We focused on the reasonableness of the assumptions used in the calculation of the AAUK defined benefit liability, the valuation of assets held by the AAUK scheme and the disclosure of post-retirement benefit scheme assets and obligations.

We obtained an understanding of the pensions process and assessed the design and implementation of controls, including complementary user entity controls in place where service organisations are used.

We involved our specialists in our assessment of the reasonableness of actuarial assumptions and the overall pension liability calculations by comparing the key assumptions, including the discount rate and inflation rate, mortality and pension increases, to benchmark ranges, performing sensitivity analysis, checking whether methods have been consistently applied and are reasonable and assessing the impact of the assumptions in combination with one another. We agreed that the judgements taken by the Directors were reasonable.

We obtained external confirmations to test the existence of pension assets as at 31 January 2023. In order to test the valuation of the complex assets, we obtained a range of supporting evidence as available, including recent transaction prices, audited fund financial statements and fund controls reports, to assess whether the value provided was reliable and appropriate. In respect of the bulk annuity policies held, we utilised our actuarial specialists to test the valuation of the assets and performed testing of the insured members to data provided by both the scheme actuary and the administrator.

We reviewed the disclosures against the requirements of IAS 19 and were satisfied with the nature and extent of the disclosures provided.

We found no material misstatements from our testing.

<p><i>Goodwill impairment assessment (Group)</i></p> <p>Refer to Notes 1.3(i) and 1.3(u) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Notes 10 and 25. The Group holds £1,164m of goodwill allocated to cash generating units (CGU) Roadside assistance, Insurance services, AA Cars and Drivetech. Goodwill is subject to annual impairment review for which the Directors analyse discounted cash flows at the CGU level.</p> <p>Cash flow forecasts are an area of particular focus given the judgements relating to future growth and discount rate assumptions. An impairment charge of £6m has been recorded by the Directors against the goodwill balance of Drivetech in the current financial year, making the Goodwill balance for this CGU £25m. No impairment was highlighted in the other three CGUs.</p> <p>The risk that we focused on in the audit is that the goodwill balance allocated across the CGUs in the Group, may have been impaired in value and this has not been recognised.</p>	<p>For the four CGUs, we obtained an understanding of the impairment process.</p> <p>We checked that the cash flow forecasts used by the Directors in the assessment of goodwill impairment were consistent with the approved five year plans, and considered the reasonableness of key assumptions in relation to recent trading, including roadside membership rates and the number of motor and home insurance policies sold or renewed. We also challenged the extent to which climate change considerations had been reflected, as appropriate, in the cash flow forecasts.</p> <p>We focused additional work on the Drivetech CGU due to the loss of a speed awareness contract in the year. For certain assumptions, which underpinned their forecast performance, including their existing customer base, contract renewals and expected growth plans, we assessed these for reasonableness against market data, if available, and other internal management data where appropriate. This indicated that an impairment of £6m was appropriate based on the assumptions.</p> <p>We evaluated the historical accuracy of the cash flow forecasts for these businesses. We found that the forecasts have been completed on a basis consistent with prior years and were an appropriate basis upon which the Directors could base their conclusions.</p> <p>We tested the assumptions for long term growth rates and the discount rate by comparing them to economic forecasts and by engaging our valuation experts to assess the cost of capital for the Company and comparable organisations respectively. We found the assumptions to be consistent and in line with our expectations based on industry benchmarks.</p> <p>We obtained and tested the Directors' sensitivity calculations over the four CGUs and agreed with their conclusion that only Drivetech had a reasonable possible change, caused by estimation uncertainty, that could give rise to an additional material impairment.</p> <p>We also evaluated the related disclosures, including the enhanced disclosure in relation to Drivetech sensitivities, and were satisfied they were appropriate.</p>
<p><i>Investment in subsidiaries impairment assessment (Company)</i></p> <p>Refer to Notes 1.3(b), 1.3(d) and 2 to the Company financial statements. The Company holds investments in subsidiaries of £1,661m representing the AA Acquisition Co Limited Group (which owns the rest of the Group). The Directors having identified a trigger for impairment have leveraged the enterprise value forecasts used for the goodwill impairment assessment to derive an equity investment valuation, which takes account of adjusting the implied enterprise value for net debt. The cash-flows supporting the valuation were discounted at a pre-tax rate and are an area of particular focus given the judgements relating to future growth.</p> <p>Having referred to the requirements of International Accounting Standard 36, 'Impairment of Assets' ("IAS 36"), the Directors have concluded no impairment charge is required in the current year.</p> <p>The risk that we focused on in the audit is that the investment in subsidiaries may have been impaired in value and this has not been recognised.</p>	<p>We obtained an understanding of the impairment process. We evaluated the Directors' impairment assessment of the investment in subsidiaries' carrying value by agreeing amounts to supporting documentation and checking calculations including net debt adjustments. This leveraged the Directors' calculations for the Group goodwill impairment assessment referred to above. With the support of our valuation experts, we evaluated the Directors' determination of the discount rate and found this to be reasonable.</p> <p>We considered the requirements of IAS 36 and agreed with the Directors' determination that no impairment be recognised in the current year. We obtained and tested the Directors' sensitivity calculations and agreed with their conclusion that there was no reasonable possible change that would give rise to an impairment or to enhanced disclosure.</p>

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

AA Intermediate Co Limited has two operating segments. Within these segments there are 45 reporting units, of which the following are considered financially significant: Automobile Association Developments Limited and Automobile Association Insurance Services Limited. Two further reporting units were subject to an audit of their complete financial information due to their nature: AA Intermediate Co Limited and AA Bond Co Limited. In addition, two reporting units were in scope for specific audit procedures, being AA Corporation Limited and AA Senior Co Limited. These two components were selected based on the contribution of each to specific financial statement line items, including: intangible assets and associated amortisation expense, operating and accrued expenses, staff costs, prepayments and long term receivables; and borrowings, external interest expense and long term derivative financial assets respectively. These, together with the procedures performed at the Group level, including auditing the consolidation and financial statement disclosures, taxation, pension scheme balances, asset impairment assessments and cash balances within the Group which were not covered through the audit of the components referenced above, gave us the evidence we needed for our opinion on the financial statements as a whole. Having undertaken certain procedures to understand the accounting processes and controls at the Group, we determined it was appropriate to perform a substantive audit for the reporting units in scope. All audit procedures were performed by the Group engagement team, with no component auditors involved.

The Company is principally a holding company and there are no branches or other locations to be considered when scoping the audit.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - Group	Financial statements - Company
<i>Overall materiality</i>	£8.0m (2022: £8.0m).	£21.4m (2022: £21.4m).
<i>How we determined it</i>	Approximately 2.5% of Reported EBITDA (formerly called Trading EBITDA in 2022) with adjustments (2022: approximately 2.5% of Trading EBITDA with adjustments)	Approximately 1% (2022: approximately 1%) of Total Assets, but for the purposes of the audit of the Group financial statements, we limited the Company materiality to £3.0m
<i>Rationale for benchmark applied</i>	EBITDA, which is a common performance measure for PE backed companies, reflects the fact that this is typically the most relevant measure of profitability. Based on the benchmarks used in the Annual Report, EBITDA is the primary measure used by the shareholders and other users of the financial statements in assessing the performance of the Group, and that by adjusting this to exclude certain items (such as the pension service charge, the share-based payments charge and the impairment of investments in joint ventures), it provides a clearer view of the performance of the underlying business.	We believe that total assets is the appropriate measure as the Company is a non-profit oriented entity. In the current year, overall materiality has been reduced to £3.0m for the purposes of the audit of the Group financial statements, to ensure the Company did not have a higher materiality than the overall Group materiality allocation.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £3.0m to £7.6m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £6.0m (2022: £6.0m) for the Group financial statements and £16.0m (2022: £16.0m) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £0.4m (Group audit) (2022: £0.4m) and £0.4m (Company audit) (2022: £0.4m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### **Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 January 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

## **Responsibilities for the financial statements and the audit**

### **Responsibilities of the Directors for the financial statements**

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and regulatory requirements, such as those governed by the Financial Conduct Authority ("FCA"), and unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or Reported EBITDA and the potential for management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management, internal audit, internal compliance and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud.
- Reviewing correspondence between the Group and the FCA in relation to compliance with laws and regulations, and considering the matters identified in light of our understanding of the sector.
- Challenging significant accounting assumptions and judgements individually and collectively for indications of management bias, in particular in relation to the valuation of post-retirement benefit assets and obligations, subsidiary investment and goodwill impairment assessments, as described further in the Key audit matters above.
- Designing risk filters to search for journal entries, such as those posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role, and testing those journals highlighted (if any).
- Incorporating elements of unpredictability into the audit procedures performed.
- Reviewing the disclosures in the Annual Report and financial statements against the specific legal requirements, for example within the Directors' report.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

### **Use of this report**

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Nicholas Smith (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Southampton  
09 June 2023

## Consolidated income statement

for the year ended 31 January

	Notes	2023 £m	2022 £m
Revenue	2	994	940
Cost of sales		<b>(406)</b>	(373)
<b>Gross profit</b>		<b>588</b>	567
Administrative & marketing expenses		<b>(392)</b>	(448)
Impairment of goodwill	10	<b>(6)</b>	-
Impairment of property, plant and equipment	11	-	(11)
<b>Operating profit</b>	3	<b>190</b>	108
Finance costs	5	<b>(132)</b>	(143)
Finance income	6	<b>5</b>	30
<b>Profit/(loss) before tax</b>		<b>63</b>	(5)
Tax expense	9	<b>(5)</b>	(1)
<b>Profit/(loss) for the year</b>		<b>58</b>	(6)

The accompanying notes are an integral part of this consolidated income statement.

## Consolidated statement of comprehensive income

for the year ended 31 January

	Notes	2023 £m	2022 £m
<b>Profit/(loss) for the year</b>		<b>58</b>	<b>(6)</b>
<b>Other comprehensive income on items that may be reclassified to the income statement in subsequent years</b>			
Effective portion of changes in fair value of cash flow hedges		17	7
Tax effect	9	(4)	(2)
		<b>13</b>	<b>5</b>
<b>Other comprehensive (expense)/income on items that will not be reclassified to the income statement in subsequent years</b>			
Remeasurement (losses)/gains on defined benefit schemes	24	(326)	322
Tax effect	9	81	(80)
		<b>(245)</b>	<b>242</b>
<b>Total other comprehensive (expense)/income</b>		<b>(232)</b>	<b>247</b>
<b>Total comprehensive (expense)/income for the year</b>		<b>(174)</b>	<b>241</b>

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

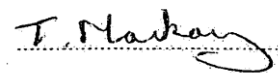
## Consolidated statement of financial position

		as at 31 January	
	Notes	2023 £m	2022 Restated <sup>1</sup> £m
<b>Non-current assets</b>			
Goodwill and other intangible assets	10	1,353	1,346
Property, plant and equipment	11	35	36
Right-of-use assets	12	60	49
Investments in joint ventures and associates	13	5	5
Derivative financial instruments	21	14	6
Financial assets at amortised cost	26	4	4
Other receivables	15	6	-
Deferred tax assets	9	14	-
Defined benefit pension scheme assets	24	-	130
		<b>1,491</b>	<b>1,576</b>
<b>Current assets</b>			
Inventories	14	4	4
Trade and other receivables	15	236	224
Derivative financial instruments	21	1	-
Current tax receivable		10	-
Amounts owed by parent undertakings	17	1,211	1,208
Cash and cash equivalents	16	99	67
		<b>1,561</b>	<b>1,503</b>
Assets classified as held for sale	36	2	8
<b>Total assets</b>		<b>3,054</b>	<b>3,087</b>
<b>Current liabilities</b>			
Trade and other payables	18	(447)	(430)
Amounts due to parent undertakings	17	(70)	(73)
Current tax payable		-	(2)
Lease liabilities	28	(23)	(15)
Provisions	22	(5)	(4)
		<b>(545)</b>	<b>(524)</b>
<b>Non-current liabilities</b>			
Borrowings and loans	19	(2,309)	(2,306)
Derivative financial instruments	21	(1)	-
Lease liabilities	28	(36)	(30)
Defined benefit pension scheme liabilities	24	(169)	-
Deferred tax liability	9	-	(57)
Provisions	22	(6)	(10)
		<b>(2,521)</b>	<b>(2,403)</b>
<b>Total liabilities</b>		<b>(3,066)</b>	<b>(2,927)</b>
<b>Net (liabilities)/assets</b>		<b>(12)</b>	<b>160</b>
<b>Equity</b>			
Share capital	23	361	361
Cash flow hedge reserve		17	4
Accumulated losses		(390)	(205)
<b>Total equity</b>		<b>(12)</b>	<b>160</b>

<sup>1</sup> Trade and other receivables, deferred tax liability and accumulated losses as at 31 January 2022 have been restated due to a change in accounting policy. See note 37 for further details.

## Consolidated statement of financial position (continued)

The financial statements on pages 29 to 91 were approved by the Board of Directors on 9 June 2023 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'T O Mackay', is written over a horizontal dotted line.

T O Mackay, Chief Financial Officer

The accompanying notes are an integral part of this consolidated statement of financial position.

## Consolidated statement of changes in equity

Attributable to the equity holders of the parent					
	Notes	Share capital £m	Cash flow hedge reserve £m	Accumulated losses £m	Total equity £m
At 1 February 2021		-	(1)	(458)	(459)
Restatement <sup>1</sup>		-	-	12	12
At 1 February 2021 (restated <sup>1</sup> )		-	(1)	(446)	(447)
Loss for the year		-	-	(6)	(6)
Other comprehensive income		-	5	242	247
Total comprehensive income		-	5	236	241
Issue of share capital		361	-	-	361
Equity-settled share-based payments	33	-	-	5	5
<b>At 31 January 2022 (restated<sup>1</sup>)</b>		<b>361</b>	<b>4</b>	<b>(205)</b>	<b>160</b>
Profit for the year		-	-	58	58
Other comprehensive income/(expense)		-	13	(245)	(232)
Total comprehensive income/(expense)		-	13	(187)	(174)
Equity-settled share-based payments	33	-	-	2	2
<b>At 31 January 2023</b>		<b>361</b>	<b>17</b>	<b>(390)</b>	<b>(12)</b>

<sup>1</sup> Retained earnings as at 1 February 2021 and 31 January 2022 have been restated due to a change in accounting policy. See note 37 for further details.

### Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The accompanying notes are an integral part of this consolidated statement of changes in equity.

## Consolidated statement of cash flows

		for the year ended 31 January	
	Notes	2023 £m	2022 £m
<b>Operating activities</b>			
Profit/(loss) before tax		63	(5)
Amortisation, depreciation and impairment	10,11,12, 36	109	108
Net finance costs	5,6	127	113
Difference between pension charge and cash contributions		(24)	(24)
Other adjustments to profit/(loss) before tax		(5)	40
Working capital and provisions:			
(Increase)/decrease in trade and other receivables		(19)	6
Increase in trade and other payables		3	12
(Decrease)/increase in provisions		(2)	2
Total working capital and provisions adjustments		(18)	20
<b>Net cash flows generated from operating activities before tax</b>		<b>252</b>	<b>252</b>
Tax paid		(9)	(10)
<b>Net cash flows generated from operating activities</b>		<b>243</b>	<b>242</b>
<b>Investing activities</b>			
Capital expenditure		(79)	(77)
Proceeds from sale of fixed assets		14	2
Investment in joint venture		(1)	(1)
Interest received		2	-
<b>Net cash flows used in investing activities</b>		<b>(64)</b>	<b>(76)</b>
<b>Financing activities</b>			
Proceeds from borrowings		250	699
Issue costs on borrowings		(2)	(15)
Debt repayment premium and penalties		(1)	-
Equity contribution via issue of shares		-	361
Repayment of borrowings		(250)	(1,113)
Proceeds from gilt-lock hedge		10	-
Refinancing transactions		7	(68)
Interest paid on borrowings		(124)	(123)
Payment of lease capital		(28)	(25)
Payment of lease interest		(2)	(2)
<b>Net cash flows used in financing activities</b>		<b>(147)</b>	<b>(218)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>32</b>	<b>(52)</b>
Cash and cash equivalents at the beginning of the year	16	67	119
<b>Cash and cash equivalents at the end of the year</b>	<b>16</b>	<b>99</b>	<b>67</b>

## Consolidated statement of cash flows (continued)

The cash flows generated from operating activities are stated net of cash outflows relating to adjusting operating items of £36m (2022: £65m). These items comprised £4m related to the closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme (2022: £5m), transaction fees related to the acquisition of £2m (2022: £50m), costs of strategic initiatives of £18m (2022: £12m) and legal claims of £1m (2022: £1m).

Other adjustments to profit/(loss) before tax outflow of £5m (2022: inflow of £40m) includes a share-based payment charge of £2m (2022: £5m) and impairment of investment in joint ventures of £1m (2022: £1m), offset by profit on sale of fixed assets of £8m (2022 profit: £2m). The prior year also included a pension past service cost of £26m and a £10m waiver of an intercompany loan.

Non-cash investing activities include the acquisition of right-of-use assets (see note 12).

The accompanying notes are an integral part of this consolidated statement of cash flows.

## Notes to the consolidated financial statements (continued)

### 1 Basis of preparation and accounting policies

#### 1.1 Presentation of financial statements

The consolidated financial statements for the year ended 31 January 2023 comprise the financial statements of AA Intermediate Co Limited ('the Company') and its subsidiaries (together referred to as 'the Group'). AA Intermediate Co Limited is a private company limited by shares, incorporated and domiciled in England and Wales, UK.

These statements and the prior year comparatives have been presented to the nearest £million.

#### 1.2 Basis of preparation

The Group has prepared these statements in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to the Regulations of the Companies Act, which requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the directors, not exceeding its useful economic life. The reason for this departure is that the goodwill has been deemed to have an indefinite useful life, in accordance with IAS 38, and has consequently been treated in accordance with the requirements of IAS 38 and instead of being amortised over the useful life is tested for impairment annually. The effect of this treatment is that the carrying value of goodwill is higher than if it had been subject to amortisation.

These consolidated financial statements have been prepared under the historic cost convention as modified by the measurement of derivatives and liabilities for contingent consideration in business combinations at fair value.

##### a) Going concern

The Group's and the Company's business activities, future developments and its exposure to financial risks are described in the "Principal activity, review of the business and future developments" and "Risk management framework" sections on pages 1 to 17.

The Group and the Company has adequate financial resources due to the Group's net current asset position and the Company's net asset position. AA Intermediate Co Limited is a wholly owned subsidiary of the AA Limited group, hence the going concern status of the Group and the Company is linked to the wider AA Limited group which provides the cash required to meet the scheduled debt interest payments and principal repayments. The Company directors have reviewed projected cash flows of the AA Limited group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited directors, that the Group and Company has sufficient funds to continue trading during this period and the foreseeable future.

The AA Limited group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of £129m of A7 Notes which have a maturity date of 31 July 2024. As at the date of approval of these financial statements, £421m of the original £550m A7 Notes has already been refinanced.

The Company directors have confirmed these points with the AA Limited group directors and have reviewed the projected cash flows of the AA Limited group for a period of at least one year from the date of approval of these financial statements. The Company directors have concluded, with the AA Limited directors, that they have confidence that the Company, the Group and the AA Limited group will have sufficient funds to continue trading during this period and the foreseeable future and will be able to secure financing so as to be able to continue to meet their liabilities as they fall due. For more detail see page 50-51 of the AA Limited group's Annual Report. For the AA Limited group's longer-term viability, it remains a key assumption of its directors that the AA Limited group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. However, as noted above, the refinancing of the Class A7 Notes, due on 31 July 2024, is currently in progress at the date of issue of these financial statements. AA Intermediate Co Limited is an obligor of the Group's borrowings and in the event the refinancing of the A7 Notes is not successful, the Group and Company may not be able to continue as a going concern.

## Notes to the consolidated financial statements (continued)

### 1 Basis of preparation and accounting policies (continued)

#### 1.2 Basis of preparation (continued)

##### a) Going concern (continued)

These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern for a period in excess of a year from the date of issue of these financial statements.

However, after making appropriate enquiries and considering the uncertainty described above, the Company's directors have, at the time of approving these financial statements, a reasonable expectation that the AA Limited group and the Company have adequate resources to continue in operational existence for the foreseeable future and, as a consequence, consider that it is appropriate to adopt the going concern basis in preparing these financial statements.

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

##### b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has rights to variable returns from its involvement with the entity and has the ability to influence those returns through its power over the entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

AA Limited and AA Intermediate Co Limited have agreed to provide a legal guarantee under s479A-C of the Companies Act 2006 to the below subsidiaries for audit exemption:

Name	Registered Number	Legal Guarantor
A A The Driving School Agency Limited	02733119	AA Limited
Prestige Fleet Servicing Limited	06254669	AA Limited
Accident Assistance Services Limited	10293691	AA Limited
AA Pension Funding GP Limited	SC460990	AA Limited
AA Acquisition Co Limited	05018987	AA Intermediate Co Limited
Drivetech (UK) Limited	03636328	AA Intermediate Co Limited
Intelligent Data Systems (UK) Limited	05148878	AA Intermediate Co Limited

#### 1.3 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

##### a) Interests in joint ventures and associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participating in the financial and operating policy decisions of the entity. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The results, assets and liabilities of joint ventures and associates are incorporated in these financial statements using the equity method of accounting. Investments in joint ventures and associates are carried in the Group statement of financial position at cost, including direct acquisition costs, as adjusted by post-acquisition changes in the Group's share of the net assets less any impairment losses.

## Notes to the consolidated financial statements (continued)

### 1 Basis of preparation and accounting policies (continued)

#### 1.3 Accounting policies (continued)

##### b) Foreign currencies

These financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Group operates.

Transactions in currencies other than the functional currency of each consolidated undertaking are recorded at rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency at rates of exchange ruling at the statement of financial position date. Gains and losses arising on the translation of assets and liabilities are taken to the income statement.

##### c) Business combinations and goodwill

All business combinations are accounted for by applying the acquisition method.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Goodwill arising on consolidation represents the excess of the consideration paid over the Group's interest in the fair value of the identified assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset at cost less accumulated impairment losses. Any contingent consideration payable is recognised at fair value at the acquisition date, and subsequent changes to the fair value of the contingent consideration are taken to the income statement.

##### d) Intangible assets

Intangible assets other than goodwill which are acquired separately are stated at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Intangible assets with finite lives are amortised on a straight-line basis over their estimated useful economic lives. The only intangible assets with finite lives held by the Group are customer relationships, software and development costs. Customer relationships are amortised over 10 years and software and development costs over 5 years.

##### e) Software and development costs

Software development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied. The asset is carried at cost less any accumulated amortisation and impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised on a straight-line basis over its useful life of three to five years.

## Notes to the consolidated financial statements (continued)

### Basis of preparation and accounting policies (continued)

#### 1.3 Accounting policies (continued)

##### e) Software and development costs (continued)

Software-as-a-Service arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses. Some of the costs incurred relate to the development of software code that enhances or modifies or creates additional capability to existing systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis.

##### f) Property, plant and equipment

Land and buildings held for use in the production of goods and the provision of services or for administrative purposes are stated in the statement of financial position at cost or fair value for assets acquired in a business combination less any subsequent accumulated depreciation and impairment losses. If relevant conditions are met, borrowing costs are capitalised.

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. The cost of property, plant and equipment less their expected residual value is depreciated in equal instalments over their useful economic lives. In assessing residual values and asset lives consideration have been given to the impact of climate change. These lives are as follows:

Buildings	50 years
Related fittings	3 – 20 years
Leasehold properties	over the period of the lease
Plant, vehicles and other equipment	3 – 10 years
Land is not depreciated	

Property, plant and equipment shall be classified as held-for-sale if its carrying amount will be recovered through a sale transaction rather than through continuing use. Assets meeting the criteria of held-for-sale are transferred to held-for-sale at the lower of carrying value or fair value less costs to sell at the point at which the criteria are met.

##### g) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs include all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

##### h) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. They are classified according to the substance of the contractual arrangements entered into. The Group recognises loss allowances for expected credit losses (ECLs) on relevant financial assets.

##### *Trade receivables*

Trade receivables are amounts due from customers for goods or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised at fair value and are subsequently held at amortised cost. The Group applies the IFRS 9 simplified approach to measuring ECLs which uses a lifetime expected loss allowance for all trade receivables.

## Notes to the consolidated financial statements (continued)

### 1 Basis of preparation and accounting policies (continued)

#### 1.3 Accounting policies (continued)

##### h) Financial instruments (continued)

###### *Trade payables*

Trade payables are not interest bearing and are recognised at fair value and are subsequently held at amortised cost.

###### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with an original maturity less than three months. Restricted cash is cash which is subject to contractual or regulatory restrictions.

###### *Debt instruments*

Debt is initially recognised in the statement of financial position at fair value less transaction costs incurred directly in connection with the issue of the instrument. Debt issue fees in respect of the instrument, including premiums and discounts on issue, are capitalised at inception and charged to the income statement over the term of the instrument using the effective interest method. Remaining issue costs on debt are written off to the income statement when the debt is extinguished.

An exchange with an existing lender of debt instruments with substantially different terms, or a substantial modification of the terms of an existing financial liability or a part of it, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

###### *Equity instruments (share capital issued by the Group)*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Equity instruments are recognised at the fair value of proceeds received less direct issue costs.

###### *Derivative financial instruments*

The Group's capital structure exposes it to the financial risk of changes in interest rates and fuel prices. The Group uses interest rate and fuel swap contracts to hedge these exposures.

Derivative financial instruments are recorded in the statement of financial position at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments. The gain or loss on remeasurement to fair value is recognised immediately in the income statement unless they qualify for hedge accounting as described below.

###### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

In the same period or periods during which the hedged expected future cash flows affects profit or loss, the associated cumulative gain or loss on the hedged forecast transaction is removed from equity and recognised in the income statement.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

## Notes to the consolidated financial statements (continued)

### 1 Basis of preparation and accounting policies (continued)

#### 1.3 Accounting policies (continued)

##### i) Impairment of assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. In addition, goodwill and intangible assets not yet available for use are tested for impairment annually.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating units or 'CGUs'). The goodwill acquired in a business combination is allocated to CGUs so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any allocated goodwill and then to reduce the carrying amounts of the other assets on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

##### j) Leases

###### *Lease liabilities*

Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate.

###### *Measurement of right-of-use assets*

The associated right-of-use assets for leases are initially measured at cost, being the initial lease liability plus any direct initial costs and an estimate of end-of-life costs, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position.

Subsequently the right-of-use assets are depreciated over their lease terms. Useful economic lives of leased assets are reviewed for appropriateness on a continuous basis including in relation to climate change impacts such as electric vehicles.

For property leases, where a decision has been made prior to the year end to permanently vacate the property, the right-of-use asset is impaired to the extent that the value cannot be recovered through rental or other income expected to be received up to the estimated date of final disposal.

## Notes to the consolidated financial statements (continued)

### 1 Basis of preparation and accounting policies (continued)

#### 1.3 Accounting policies (continued)

##### k) Provisions and contingent liabilities

A provision is required when the Group has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated. Provisions are discounted where the impact is material. Material contingent liabilities are disclosed unless the likelihood of transfer of economic benefits is remote. Contingent assets are only disclosed if an inflow of economic benefits is probable.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

##### l) Retirement benefit obligation

The Group's position in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The Group determines the net interest on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA, with maturity dates approximating the terms of the Group's obligations, and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets (excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in administrative and marketing expenses in the income statement.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in the income statement when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

For defined contribution schemes, the amounts recognised in the income statement are the contributions payable in the year.

##### m) Revenue recognition

Revenue is measured at the fair value of the consideration receivable less any discounts and excluding value added tax and other sales related taxes.

Roadside membership subscriptions are apportioned on a time basis over the period where the Group is liable for risk cover as the relevant performance obligations are settled over time with the Group acting as principal. The unrecognised element of subscriptions and premiums receivable, relating to future periods, is held within liabilities as deferred income. This stream is accounted for under IFRS 4.

Commission income from insurers external to the Group is recognised at the commencement of the period of risk on a point in time basis, with the Group acting as agent in this relationship. This stream is accounted for under IFRS 15.

## Notes to the consolidated financial statements (continued)

### 1 Basis of preparation and accounting policies (continued)

#### 1.3 Accounting policies (continued)

##### m) Revenue recognition (continued)

Where customers choose to pay by instalments, finance income for the Group, which is classified as Revenue, is recognised in the period to which it relates using the effective interest rate method. This stream is accounted for under IFRS 9.

Fees receivable on franchise agreements with driving instructors are recognised as revenue over time across the term of the franchise agreements. This includes fees receivable under the franchise agreement in respect of provision of tuition vehicles, which is not considered to be a sub-lease arrangement. The Group acts as principal in this relationship. This stream is accounted for under IFRS 15.

Commission income from the sale and related marketing and administrative services of financial products is recognised on a point in time basis at the point of the provision of the service. Profit share income is earned based on the cumulative profits earned by the financial services partnership with the Bank of Ireland, which is recognised over time when certain thresholds of profitability in the partnership are reached. This stream is accounted for under IFRS 15.

##### n) Insurance contracts

An insurance contract is a contract under which insurance risk is transferred to the issuer of the contract by another party. In the roadside segment, the Group accepts insurance risk from its customers under roadside recovery service contracts by agreeing to provide services whose frequency and cost is uncertain. Claims and expenses arising from these contracts are recognised in profit or loss as incurred.

At the statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current estimates of future cash outflows arising under insurance contracts are considered and compared with the carrying amount of deferred income, provision for unearned premiums and other insurance contract liabilities. Any deficiency is immediately recognised in the income statement and an additional liability is established.

The estimation of the ultimate liability from claims made under insurance contracts for breakdown recovery is not considered to be one of the Group's most critical accounting estimates. This is because there is a very short period of time between the receipt of a claim, e.g. a breakdown, and the settling of that claim at the roadside or through recovery. Consequently, there are no significant provisions for unsettled claims

##### o) Deferred acquisition costs

Due to a change in accounting policy, during the year the Group began deferring Roadside acquisition costs, where the risk is underwritten by the Group, which has resulted in a restatement of the prior year financial statements (see note 37).

##### p) Adjusting operating items

Adjusting operating items are events or transactions that fall within the operating activities of the Group and which, by virtue of their size or incidence, have been disclosed in order to improve a reader's understanding of the financial statements. Some items may span over more than one year.

In addition, occasionally there are events or transactions that fall below operating profit that are one-off in nature and items within operating profit that relate to transactions that do not form part of the ongoing segment performance and which, by virtue of their size or incidence, have been separately disclosed in the financial statements.

## Notes to the consolidated financial statements (continued)

### 1 Basis of preparation and accounting policies (continued)

#### 1.3 Accounting policies (continued)

##### q) Finance income and costs

Finance costs comprise interest payable, finance charges on lease liabilities recognised in profit or loss using the effective interest method, amortisation of debt issue fees, unwinding of the discount on provisions (including the net defined benefit obligations) and debt issue fees written off.

Finance income comprises net finance income from defined benefit pension schemes, interest receivable and movement in interest rate swaps.

##### r) Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

##### s) Segmental analysis

The Group reports its operations using the segments that are reported for management purposes. Segments are based on business operations because this is where Group risk and return is focused.

##### t) Share-based payments

The Group operates equity-settled and cash-settled share-based payment compensation plans for employees.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an employee cost, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards.

## Notes to the consolidated financial statements (continued)

### 1 Basis of preparation and accounting policies (continued)

#### 1.3 Accounting policies (continued)

##### t) Share-based payments (continued)

The fair value of the awards granted is measured using a valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market vested and non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true up for differences between expected and actual outcomes. On change of control, if vesting date is brought forward, the share based payment charge and increase in equity for the remainder of the vesting term will be accelerated and recognised as at that date (see note 33).

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each statement of financial position date and at settlement date. Any changes in the fair value of the liability are recognised as an employee cost in the income statement.

##### u) Critical accounting estimates and judgements

Estimates are evaluated regularly and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management has exercised judgement in applying the Group's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based are reviewed on an ongoing basis and include the selection of assumptions in relation to the retirement benefit obligation and assumptions for future growth of cash flows to support the value in use calculations for the goodwill impairment review.

The principal estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### *Retirement benefit obligation*

The Group's retirement benefit obligation, which is actuarially assessed each period, is based on key assumptions including return on plan assets, discount rates, mortality rates, inflation, future salary and pension costs. These assumptions may be different to the actual outcome (see note 26 for sensitivity analysis).

In the current year, the AAUK defined benefit pension scheme is in a surplus position. There is judgement around the recognition of a surplus which has been considered by management. The defined benefit pension scheme surplus has been recognised as the Group has an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

## Notes to the consolidated financial statements (continued)

### 1 Basis of preparation and accounting policies (continued)

#### 1.3 Accounting policies (continued)

##### u) Critical accounting estimates and judgements (continued)

###### *Intangibles*

The Group has significant software development programmes and there is judgement in relation to which programmes and costs to capitalise under IAS 38. Additionally, there is an estimate in respect of the future usage period of software on which the Group bases the useful economic life of related assets. A reduction in the useful economic life of Customer relationships and Software of 1 year would result in an increase in the amortisation charge by 10% and 25% respectively (see note 10).

###### *Intercompany receivables*

The assessment of credit loss allowances for intercompany receivables requires judgement to assess the collectability of intercompany balances. Formal intercompany loan balances are reviewed on a case-by-case basis for impairment.

###### *Goodwill - Drivetech*

The Group tests goodwill for impairment annually. The recoverable amounts of CGUs have been determined based on value in use calculations which require the use of estimates (see note 25). Management has prepared discounted cash flows based on the latest strategic plan. The value in use calculation is most sensitive to assumptions in growth and discount rate (see note 25), and cash flows incorporate the latest business-led assumptions including contract wins and renewals, sales volumes and investment requirements including an assessment of the impact of climate change.

The following are other principal estimates and assumptions made by the Group, but which management believes do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

###### *Share-based payments*

The Group's indirect parent companies have issued a number of share-based payment awards to employees which are measured at fair value. Calculating the share-based payment charge for the year involves estimating the number of awards expected to vest, which in turn involves estimating the number of expected leavers over the vesting period and the extent to which non-market-based performance conditions will be met. Determining the fair value of an award with a market-based performance condition also involves factoring in the impact of the expected volatility of the share price.

###### *Leases*

The Group recognises lease liabilities in relation to leases, measured at the present value of the minimum lease payments, discounted using the discount rate implicit in the lease, or, where this is not available, the corresponding incremental borrowing rate at the date of inception of the lease. Management's approach to determining the incremental borrowing rate for a right-of-use asset involves using data provided by the Group's external advisers on the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the relevant right-of use asset.

###### *Goodwill – Other*

The Group tests goodwill for impairment annually. The recoverable amounts of CGUs have been determined based on value in use calculations which require the use of estimates (see note 25). Management has prepared discounted cash flows based on the latest strategic plan. The value in use calculation is most sensitive to assumptions in growth and discount rate, and cash flows incorporate the latest business-led assumptions including contract wins and renewals, sales volumes and investment requirements including an assessment of the impact of climate change.

## Notes to the consolidated financial statements (continued)

### 2 Segmental information and revenue disaggregation

The Group has two key segments – Roadside and Insurance. These segments are consistent with the way in which information is presented to the chief operating decision maker. Head Office costs have been allocated to these two key segments as these costs principally directly support the operations of these segments. Head Office costs are predominately allocated on a percentage of revenue basis.

The two reportable operating segments are as follows:

- *Roadside*: This segment is the largest part of the AA business. The AA provides a nationwide service, sending patrols out to members stranded at the side of the road, repairing their vehicles where possible and getting them back on their way quickly and safely. In addition, this segment includes the AA and BSM driving schools, Drivetech which provides driver training and educative programmes, and our Prestige business which provides service, maintenance and repair services.
- *Insurance*: This segment includes the insurance brokerage activities of the AA, primarily in arranging motor and home insurance for customers and its intermediary financial services business. This segment also includes AA Cars which sells used vehicles.

	2023 £m	2022 £m
<b>Revenue</b>		
Roadside	878	822
Insurance	116	118
<b>Revenue</b>	<b>994</b>	<b>940</b>
<b>Operating profit</b>		
Roadside	207	168
Insurance	13	13
<b>Operating profit before adjusting operating items</b>	<b>220</b>	<b>181</b>
Adjusting operating items (see note 4)	(30)	(73)
<b>Operating profit</b>	<b>190</b>	<b>108</b>

All segments operate principally in the UK. Revenue by destination is not materially different from revenue by origin. Segment performance is primarily evaluated using the Group's key performance measures of Revenue and operating profit before adjusting operating items.

Adjusting operating items, net finance costs and tax expense are not allocated to individual segments as they are managed on a Group basis. Segmental information is not presented for items in the statement of financial position as management does not view this information on a segmental basis. Insurance revenue includes £22m (FY22: £24m) which is recognised under the effective interest method. Please see corresponding accounting policy in note 1.3(m) for further details.

## Notes to the consolidated financial statements (continued)

### 2 Segmental information and revenue disaggregation (continued)

#### Disaggregation of revenue:

	2023 £m	2022 £m
<b>Roadside:</b>		
<b>Consumer (B2C)</b>		
Insured contracts	506	480
Pay for use contracts <sup>1</sup>	54	47
<b>Business services (B2B)</b>		
Insured contracts	31	31
Pay for use contracts <sup>1</sup>	191	178
<b>Roadside other<sup>2</sup></b>	96	86
<b>Total Roadside</b>	<b>878</b>	<b>822</b>
<b>Insurance:</b>		
Brokering activities	96	100
Insurance other <sup>2</sup>	20	18
<b>Total Insurance</b>	<b>116</b>	<b>118</b>
<b>Revenue</b>	<b>994</b>	<b>940</b>

<sup>1</sup> Pay for use contracts relate to contracts that take into account the number of breakdowns.

<sup>2</sup> Roadside other comprises the Group's Driving Schools, Drivetech and Prestige businesses as well as a number of other smaller operations. Insurance other comprises the Group's AA Cars and Financial Services businesses.

Roadside B2C and B2B mostly consists of revenue from roadside membership subscriptions. The majority of brokering activities revenue relates to commission income from insurers external to the Group.

## Notes to the consolidated financial statements (continued)

### 3 Operating profit

Operating profit is stated after charging:

	2023 £m	2022 £m
Amortisation of owned intangible assets (see note 10)	59	60
Depreciation of owned tangible fixed assets (see note 11)	13	14
Depreciation of right-of-use assets (see note 12)	30	24
Amortisation of acquisition costs (see note 15)	45	40
Share-based payments (see note 33)	2	5
Pension service charge adjustment (see note 24)	5	4
Past pension service cost (see note 24)	-	26
Impairment of property, plant and equipment (see note 11)	-	11
Impairment of goodwill (see note 10)	6	-
Impairment of held-for-sale property (see note 36)	1	-
Adjusting operating items (see note 4)	30	73
	<b>191</b>	<b>257</b>

### 4 Adjusting operating items

	2023 £m	2022 £m
Transaction fees related to the acquisition and debt financing arrangements	2	46
Strategic review projects	18	13
Closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme	4	5
Investment in research project	10	-
Intercompany loan waiver	-	10
Other adjusting operating items	(4)	(1)
Total adjusting operating items	<b>30</b>	<b>73</b>

Strategic review projects of £18m relates to transformation and organisational redesign. The £10m investment in research project relates to a significant project in our service, maintenance and repair capability, with further research spend anticipated in FY24 to test a new offering. The project is expected to become business as usual in FY25 when the offering is expected to be launched nationwide. The investment spend is governed and approved by the Board of Directors. (£4m) other operating adjusting items include (£8m) profit on sale of fixed assets, £2m cost-of-living payments, £1m of impairment of investments in joint ventures and £1m relating to legal costs on a claim on which a judgement was favourably handed down in January 2023 and was successfully defended on all material elements.

In the prior year, other adjusting operating items comprised a £1m impairment of investments in joint ventures offset by a £2m gain relating to the sale of property, plant and equipment.

In the prior year, the intercompany loan waiver reflected the forgiveness of a loan between AA Limited and Automobile Association Developments Limited following the closure of the Employee Benefit Trust on acquisition of the AA Limited group in March 2021.

## Notes to the consolidated financial statements (continued)

### 4 Adjusting operating items (continued)

Costs from the current year refinancing were directly attributable to the issue and repayment of loan notes and have therefore been included either in finance costs or in borrowings as debt issue fees (see notes 5 and 20).

### 5 Finance costs

	2023 £m	2022 £m
Interest on external borrowings	123	125
Finance charges payable on lease liabilities	2	2
<b>Total ongoing cash finance costs</b>	<b>125</b>	<b>127</b>
Ongoing amortisation of debt issue fees	5	9
Net finance expense on defined benefit pension schemes	-	2
<b>Total ongoing non-cash finance costs</b>	<b>5</b>	<b>11</b>
Early repayment penalty	1	-
Debt issue fees immediately written off following refinancing of banking facilities (see note 20)	-	1
<b>Total adjusting cash finance costs</b>	<b>1</b>	<b>1</b>
Unamortised debt issue fees written off following repayment of borrowings (see note 20)	1	4
<b>Total adjusting non-cash finance costs</b>	<b>1</b>	<b>4</b>
<b>Total finance costs</b>	<b>132</b>	<b>143</b>

During the current year, the Group issued £250m of Class A10 Notes and repaid £250m of Class A6 Notes.

The issue of the class A10 Notes was not a modification of any existing debt and the associated issue fees were capitalised

The Group incurred adjusting finance costs of £2m consisting of a £1m write-off of unamortised issue fees associated with the Class A6 Notes and a £1m early repayment penalty following repayment of the A6 Notes.

### 6 Finance income

	2023 £m	2022 £m
Gain from release of Class B2 Notes	-	29
Interest income on bank deposits	2	-
<b>Total ongoing cash finance income</b>	<b>2</b>	<b>29</b>
Net finance income on defined benefit pension schemes	3	-
Fair value movement on interest rate swap	-	1
<b>Total ongoing non-cash finance income</b>	<b>3</b>	<b>1</b>
<b>Total finance income</b>	<b>5</b>	<b>30</b>

In the prior period, AA Limited surrendered for cancellation £29m of Class B2 notes resulting in a gain of £29m in the Group. This cancellation, along with the £261m equity contribution and issue of £280m Class B3 Notes enabled the redemption in full of the Class B2 Notes. The Company also made a £1m gain on fair value movement on interest swaps.

## Notes to the consolidated financial statements (continued)

### 7 Employee costs

	2023 £m	2022 £m
Wages and salaries	260	245
Social security costs	28	26
Other pension costs	31	30
Share-based payments expense (see note 33)	2	5
	<b>321</b>	<b>306</b>

Wages and salaries include £2m (2022: £nil) of one off cost-of-living payments with no service requirement within adjusted operating items (see note 4).

The average monthly number of persons employed under contracts of service during the year was:

	2023 number	2022 number
Operational	5,593	5,629
Management and administration	1,329	1,291
	<b>6,922</b>	<b>6,920</b>

### 8 Directors' remuneration

	2023 £m	2022 £m
Directors' remuneration	1	1
Aggregate remuneration in respect of qualifying services	1	1
Members of defined benefit pension schemes (number)	1	1

The amounts paid in respect of the highest paid director were as follows:

	2023	2022
Remuneration	1	1

During the year ended 31 January 2023, the highest paid director received nil shares in respect of qualifying services under a long-term incentive scheme. No other emoluments under long-term incentive schemes were received by the highest paid director.

No director has received shares in respect of qualifying services under long-term incentive schemes in the current year (2022: nil).

No director exercised share options in the current year (2022: 1).

The accrued pension of the highest paid director was £nil at 31 January 2023 (2022: £nil). The highest paid director had no contributions to a money purchase pension plan (2022: £nil).

## Notes to the consolidated financial statements (continued)

### 9 Tax

The major components of the income tax expense are:

	2023 £m	2022 £m
<b>Consolidated income statement</b>		
<b>Current income tax</b>		
Current income tax charge	7	13
Adjustment in respect of prior years	(10)	(1)
	(3)	12
<b>Deferred tax</b>		
Origination and reversal of temporary differences	7	(4)
Effect of rate change on opening balances	1	(7)
	8	(11)
<b>Tax expense in the consolidated income statement</b>	<b>5</b>	<b>1</b>

	2023 £m	2022 £m
<b>Consolidated statement of comprehensive income</b>		
Current tax on changes in fair value of cash flow hedges	2	-
Deferred tax on changes in fair value of cash flow hedges	2	2
Deferred tax on remeasurements of defined benefit pension liability	(81)	80
<b>Income tax (credited)/charged directly to other comprehensive (expense)/ income</b>	<b>(77)</b>	<b>82</b>

### Reconciliation of tax expense to profit/(loss) before tax multiplied by the UK's corporation tax rate

	2023 £m	2022 £m
Profit/(loss) before tax	63	(5)
Tax at rate of 19.0% (2022: 19.0%)	12	(1)
Adjustments in respect of prior years	(10)	(1)
Rate change adjustment on temporary differences	1	(7)
Expenses not deductible/(chargeable) for tax purposes:		
- Corporate Interest Restriction disallowance	-	9
- Costs relating to sale of the Group	-	4
- Non-taxable forgiveness of inter-company creditor	-	(4)
- Investment impairment	1	-
- Other non-deductible expenses/non-taxed income	1	1
<b>Income tax expense reported in the consolidated income statement at effective rate of (8%) (2022: (20%))</b>	<b>5</b>	<b>1</b>

## Notes to the consolidated financial statements (continued)

### 9 Tax (continued)

#### Deferred tax by type of temporary difference

	Consolidated statement of financial position		Consolidated income statement	
	2023 £m	2022 Restated <sup>1</sup> £m	2023 £m	2022 £m
Accelerated depreciation for tax purposes	14	16	2	(7)
Revaluations of land and buildings to fair value	-	-	-	(1)
Rollover relief	(2)	(2)	-	-
Pension	(2)	(78)	5	(2)
Revaluation of cash flow hedges	(4)	(1)	1	(1)
Short-term temporary differences	8	6	(2)	(2)
Losses available for offsetting against future taxable income	-	2	2	2
<b>Deferred tax charge/(credit)</b>			<b>8</b>	<b>(11)</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>14</b>	<b>(57)</b>		

<sup>1</sup> Prior year net deferred tax liability has been restated. See note 37 for further details.

#### Reconciliation of net deferred tax assets/(liabilities)

	2023 £m	2022 £m
<b>At the beginning of the year</b>	<b>(57)</b>	14
Tax (charge)/credit recognised in the consolidated income statement	<b>(8)</b>	11
Tax credit/(charge) recognised in other comprehensive (expense)/ income	<b>79</b>	(82)
<b>At the end of the year</b>	<b>14</b>	<b>(57)</b>

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority. The March 2021 budget announced that the main corporation tax rate would increase from 19% to 25% in April 2023. This increase was substantively enacted in May 2021 and has therefore been reflected in the measurement of deferred tax as at 31 January 2023 and 31 January 2022. The effect of the tax rate increase has been a deferred tax expense of £1m during the year (2022: deferred tax credit of £7m during the year consisting of a £4m restatement of opening balances and £3m on movements during the year). Deferred tax balances have been measured according to the substantively enacted rates applicable to the periods in which they are scheduled to reverse.

The Group has carried forward tax losses which arose in the UK of £nil (2022: £12m tax losses, deferred tax equivalent £2m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A further £2m (2022: £1m) deferred tax asset relating to other tax losses has not been recognised due to the uncertainty of the availability of suitable future profits to enable recovery. The Group has carried forward interest expenses of £nil (2022: £58m, deferred tax equivalent £14m). This potential deferred tax asset has not been recognised due to uncertainty over whether the Group will be able to access these amounts in future periods. However, following a review of the public to private transition in the prior year, it was established that there was no impact on the application of the UK's Corporate Interest Restriction rules to the Group.

## Notes to the consolidated financial statements (continued)

### 9 Tax (continued)

As a result of this, the £58m of interest expenses noted above were not required to be carried forward, resulting in a £9m adjustment in respect of prior years.

The effective tax rate is 8% which differs from the standard rate of corporation tax. This reduced rate results from the adjustment in respect of prior year noted above.

The effective rate for 2022 was (20%). This rate is as a result of the benefit of the rate change differences and non-taxable debt forgiveness being more than offset by the impact of one-off disallowable costs incurred in respect of the acquisition of the Group's shares and the impact of the carried forward interest expenses.

### 10 Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Software £m	Total £m
<b>Cost</b>				
At 1 February 2021	1,197	11	303	1,511
Additions	-	-	59	59
Disposals	-	-	(20)	(20)
<b>At 31 January 2022</b>	<b>1,197</b>	<b>11</b>	<b>342</b>	<b>1,550</b>
Additions	-	-	72	72
Disposals	-	-	(11)	(11)
<b>At 31 January 2023</b>	<b>1,197</b>	<b>11</b>	<b>403</b>	<b>1,611</b>
<b>Accumulated amortisation and impairment</b>				
At 1 February 2021	27	2	134	163
Amortisation	-	1	59	60
Disposals	-	-	(19)	(19)
<b>At 31 January 2022</b>	<b>27</b>	<b>3</b>	<b>174</b>	<b>204</b>
Amortisation	-	1	58	59
Disposals	-	-	(11)	(11)
Impairment	6	-	-	6
<b>At 31 January 2023</b>	<b>33</b>	<b>4</b>	<b>221</b>	<b>258</b>
<b>Net book value</b>				
<b>At 31 January 2023</b>	<b>1,164</b>	<b>7</b>	<b>182</b>	<b>1,353</b>
At 31 January 2022	1,170	8	168	1,346

## Notes to the consolidated financial statements (continued)

### 10 Goodwill and other intangible assets (continued)

Within software, £40m (2022: £22m) relates to assets under construction which are not amortised. This includes £18m (2022: £3m) relating to an insurance sales and administration policy platform.

Software additions comprise £20m (2022: £16m) in relation to internally developed assets and £52m (2022: £43m) in relation to separately acquired assets.

Amortisation costs are included within administrative and marketing expenses in the income statement. An annual impairment review has been performed over the goodwill balance, see note 25 for details.

### 11 Property, plant and equipment

	Freehold land & buildings £m	Buildings on long leasehold land £m	Vehicles £m	Plant & equipment £m	Total £m
<b>Cost</b>					
At 1 February 2021	24	7	-	74	105
Additions	-	-	-	17	17
Disposals	-	-	-	(9)	(9)
Transferred to Held for Sale (see note 38)	(24)	-	-	(6)	(30)
<b>At 31 January 2022</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>76</b>	<b>83</b>
Additions	-	-	-	12	12
Disposals	-	-	-	(15)	(15)
<b>At 31 January 2023</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>73</b>	<b>80</b>
<b>Accumulated depreciation and impairment</b>					
At 1 February 2021	10	4	-	39	53
Charge for the year	1	1	-	12	14
Impairment	5	2	-	4	11
Disposals	-	-	-	(9)	(9)
Transferred to Held for Sale (see Note 38)	(16)	-	-	(6)	(22)
<b>At 31 January 2022</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>40</b>	<b>47</b>
Charge for the year	-	-	-	13	13
Disposals	-	-	-	(15)	(15)
<b>At 31 January 2023</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>38</b>	<b>45</b>
<b>Net book value</b>					
<b>At 31 January 2023</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35</b>	<b>35</b>
At 31 January 2022	-	-	-	36	36

Within plant and equipment, £nil (2022: £1m) relates to assets under construction which are not depreciated. During current the year, there was an impairment charge of £nil (2022: £11m) against property, plant and equipment, of which £9m relates to two properties that have been transferred to held for sale (see note 36). The impairment reduced the values of the properties to the lower of carrying amount and fair value less cost to sell. Depreciation costs are included within administrative and marketing expenses in the income statement.

## Notes to the consolidated financial statements (continued)

### 12 Right-of-use assets

This note provides information for leases where the Group is a lessee. Under IFRS 16, right-of-use assets are recognised in the statement of financial position in respect of leased assets.

	Property £m	Vehicles & equipment £m	Total £m
<b>Cost</b>			
At 1 February 2021	22	75	97
Additions	6	16	22
Disposals restated <sup>1</sup>	-	(10)	(10)
<b>At 31 January 2022</b>	<b>28</b>	<b>81</b>	<b>109</b>
Additions	4	37	41
Disposals	-	(16)	(16)
<b>At 31 January 2023</b>	<b>32</b>	<b>102</b>	<b>134</b>
<b>Accumulated depreciation</b>			
At 1 February 2021	4	41	45
Charge for the year	2	21	23
Disposals restated <sup>1</sup>	-	(8)	(8)
<b>At 31 January 2022</b>	<b>6</b>	<b>54</b>	<b>60</b>
Charge for the year	2	28	30
Disposals	-	(16)	(16)
<b>At 31 January 2023</b>	<b>8</b>	<b>66</b>	<b>74</b>
<b>Net book value</b>			
<b>At 31 January 2023</b>	<b>24</b>	<b>36</b>	<b>60</b>
At 31 January 2022	22	27	49

<sup>1</sup> Disposals of vehicles & equipment for the year ended 31 January 2022 have been restated to correct an error relating to the prior year (see note 37).

Depreciation costs are included within administrative and marketing expenses in the income statement.

## Notes to the consolidated financial statements (continued)

### 13 Investments in joint ventures and associates

	2023			2022		
	Joint ventures £m	Associates £m	Total £m	Joint ventures £m	Associates £m	Total £m
At the beginning of the year	1	4	5	1	4	5
Additions	1	-	1	1	-	1
Impairment	(1)	-	(1)	(1)	-	(1)
<b>At the end of the year</b>	<b>1</b>	<b>4</b>	<b>5</b>	<b>1</b>	<b>4</b>	<b>5</b>

The joint ventures of the Group which are indirectly held are detailed below. Except where otherwise stated, the share capital of each joint venture consists of only ordinary shares.

Company	Country of registration	Nature of business
AA Law Limited (49% interest held) <sup>1</sup>	England and Wales, UK	Insurance services
Drvn Solutions Limited (48% interest held) <sup>2</sup>	England and Wales, UK	Roadside services
AA Media Limited (49% interest held) <sup>3</sup>	England and Wales, UK	Publishing

<sup>1</sup> The Group exercises joint control over AA Law Limited through its equal representation on the Board. AA Law Limited has A and B ordinary shares.

<sup>2</sup> The Group exercises joint control over Drvn Solutions Limited through its joint influence over key decision-making. Drvn Solutions Limited has A and B ordinary shares.

<sup>3</sup> The Group exercises joint control over AA Media Limited through its equal representation on the Board. AA Media Limited has A ordinary shares.

The associates of the Group are listed below. Except where otherwise stated, the share capital of each associate consists of only ordinary shares.

Company	Country of registration	Nature of business
ARC Europe SA (20% interest held)	Belgium	Roadside services

### 14 Inventories

	2023 £m	2022 £m
Finished goods	4	4
	<b>4</b>	<b>4</b>

Cost of sales included £27m (2022: £24m) of inventories recognised as an expense. £1m (2022: £nil) has been charged to cost of sales in relation to inventory write-downs consisting of a £3m charge (2022: £nil) and a £2m release (2022: £nil).

## Notes to the consolidated financial statements (continued)

### 15 Trade and other receivables

	2023 £m	2022 Restated <sup>1</sup> £m
<b>Non-Current</b>		
Other receivables	6	-
	<b>6</b>	<b>-</b>
<b>Current</b>		
Trade receivables	163	158
Prepayments	25	25
Contract assets	29	21
Deferred acquisition costs (see reconciliation below)	13	15
Other receivables	6	5
	<b>236</b>	<b>224</b>
<b>Total</b>	<b>242</b>	<b>224</b>

Trade receivables include £97m (2022: £99m) relating to amounts due from insurance broking customers.

#### Deferred acquisition costs

	2023 £m	2022 Restated <sup>1</sup> £m
At 1 February	15	15
Acquisition expenses deferred for the year	43	40
Amortisation charge for the year	(45)	(40)
<b>At 31 January</b>	<b>13</b>	<b>15</b>

<sup>1</sup>Deferred Acquisition costs have been restated due to a change in accounting policy. See note 37 for further details.

### 16 Cash and cash equivalents

	2023 £m	2022 £m
Ring-fenced cash at bank and in hand – available	94	67
Ring-fenced cash at bank and in hand – restricted	5	-
<b>Cash and cash equivalents as presented in consolidated statement of financial position</b>	<b>99</b>	<b>67</b>

Ring-fenced cash and cash equivalents relate to cash held within the Whole Business Securitisation (WBS) by the Group. Dividends can only be paid to the AA Limited group when certain debt to debt covenant EBITDA and cash flow criteria are met.

Restricted cash which is ring-fenced consists of £5m (2022: £nil) which is held in a debt service reserve account to meet the Liquidity Required Amount requirements per the debt document definitions.

## Notes to the consolidated financial statements (continued)

### 17 Amounts owed by/due to parent undertakings

Amounts owed by/due to parent undertakings are unsecured, have no repayment terms and bear no interest.

	2023 £m	2022 £m
Amounts owed by parent undertakings	1,211	1,208
Amounts due to parent undertakings	(70)	(73)
	<b>1,141</b>	<b>1,135</b>

### 18 Trade and other payables

	2023 £m	2022 £m
<b>Current</b>		
Trade payables	123	111
Other taxes and social security costs	13	24
Accruals	65	56
Deferred income	221	222
Other payables	25	17
	<b>447</b>	<b>430</b>

Trade payables include £68m (2022: £67m) relating to amounts due to underwriters in respect of insurance broking activities.

Deferred income primarily relates to roadside subscriptions deferred on a time apportionment basis. Of the revenue recognised in the year, £210m (2022: £214m) was included within deferred income at the beginning of the year.

Included in deferred income is £12m (2022: £11m) which will be released over a period more than 12 months from the statement of financial position date.

### 19 Borrowings and loans

	2023 £m	2022 £m
<b>Non-current liabilities</b>		
Borrowings (see note 20)	2,309	2,306
	<b>2,309</b>	<b>2,306</b>

At 31 January 2023 there are no current borrowings (2022: £nil). The class A6 Notes were redeemed on 14 July 2022 (see note 20).

## Notes to the consolidated financial statements (continued)

### 20 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total as at 31 January 2023 £m	Total as at 31 January 2022 £m
Senior Term Facility	10 March 2026	3.49%	150	(1)	-	149	149
Class A2 Notes	31 July 2025	6.27%	500	(1)	1	500	500
Class A6 Notes	31 July 2023	2.75%	-	-	-	-	249
Class A7 Notes	31 July 2024	4.88%	550	(8)	6	548	547
Class A8 Notes	31 July 2027	5.50%	325	(3)	1	323	323
Class A9 Notes	31 July 2028	3.25%	270	(4)	1	267	266
Class A10 Notes	31 July 2029	7.38%	250	(2)	-	248	-
Class B3 Notes	31 January 2026	6.50%	280	(10)	4	274	272
		<b>5.45%</b>	<b>2,325</b>	<b>(29)</b>	<b>13</b>	<b>2,309</b>	2,306

No changes were made to the Group's banking facilities during the period. Refer to note 38 for events after period end impacting the banking facilities.

The Group's £150m Senior Term Facility is subject to a variable interest rate of SONIA plus a Credit Adjustment Spread of 0.28% plus a margin of 2.75% per annum. The Group has an interest rate swap which fixes the variable SONIA interest rate at 0.46% from 1 August 2021 to 10 March 2026.

At 31 January 2023 all other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 5.45% has been calculated using the effective interest rate and principal values on 31 January 2023.

The Group's £56m Working Capital Facility, of which £46m is available for cash drawings, and the Group's £160m Liquidity Facility remain undrawn. If the facilities are drawn the margin above SONIA on the Working Capital Facility is 2.75% plus a credit adjustment spread of 0.28% and on the Liquidity Facility is 4.0% plus a credit adjustment spread of 0.28%. On 13 July 2022 AA Bond Co Limited issued £250m of Class A10 Notes at an interest rate of 7.38%. £2m of issuance fees associated with the issue of the Class A10 Notes were capitalised and will be amortised over the expected maturity of the debt. The proceeds of the issuance of the Class A10 Notes were used to redeem the Class A6 Notes. The A6 redemption was done at a make-whole premium of £1m and was completed on 14 July 2022.

In March 2022 a series of gilt lock hedges totalling £250m were transacted to fix in advance the underlying gilt yield used for the issuance of the A10 Notes on 13 July 2022. The gilt locks were unwound prior to the issuance of the A10 Notes and total cash proceeds of £10m were received by the Group on 6 July 2022. This transaction has been accounted for as a cash flow hedge, with the effective element of the change in fair value booked in other comprehensive income and being reclassified to the consolidated income statement over the life of the A10 Notes. Following the extinguishment of the Class A6 Notes, £1m of associated unamortised fees were written off. In order to show the Group net borrowings, the Notes and the issue costs have been offset. Issue costs are shown net of any premium on the issue of borrowings. Interest rate swaps are recognised in the statement of financial position at fair value at the period end.

All of the Class A Notes are secured by first ranking security in respect of the undertakings and assets of AA Intermediate Co Limited and its subsidiaries. The Class A facility security over the AA Intermediate Co Limited group's assets ranks ahead of the Class B3 Notes.

## Notes to the consolidated financial statements (continued)

### 20 Borrowings (continued)

The Class B3 Notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co Limited group, AA Mid Co Limited. AA Mid Co Limited can only pay a dividend when certain Net Debt to debt covenant EBITDA and cash flow criteria are met.

Any voluntary early repayments of the Class A Notes would incur a make-whole payment of all interest due to the expected maturity date, although most classes of Notes can be settled without penalty within a period before the expected maturity date. For the Class A7 Notes this period is three months, for the Class A8 Notes, Class A9 Notes and Class A10 Notes this period is 6 months. Any voluntary repayment on the Class B3 Notes would be made at a fixed premium until 31 January 2025 after which there would be no premium to pay on redemption. No redemption of the Class B3 Notes occurred during the period.

All of the Group loan Notes are listed on the Irish Stock Exchange plc, trading as Euronext Dublin.

In order to comply with the requirements of the Class A Notes, the Group is required to maintain the Class A free cash flow to debt service ratio in excess of 1.35x. The actual Class A free cash flow to debt service ratio as at 31 January 2023 was 2.9x (2022: 3.1x).

The Class A Notes only permit the release of cash from the AA Intermediate Co Limited group of companies providing the Senior Leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The actual Senior Leverage ratio as at 31 January 2023 was 5.8x (2022: 6.2x). The Class B3 Notes restrictions only permit the release of cash providing a number of criteria are met including that the Fixed Charge Coverage ratio after payment is more than 2:1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income. The actual Fixed Charge Coverage ratio at 31 January 2023 was 2.6x (2022: 2.7x).

The Class A and Class B3 Notes therefore place restrictions on the Group's ability to upstream cash from the key trading companies to pay external dividends and finance activities unconstrained by the restrictions embedded in the debts.

On 13 July 2022, S&P Global Ratings reaffirmed the credit rating of the Group's Class A Notes at BBB- and the Class B3 Notes at B+.

In February 2023, further changes were made to the Group's financing profile. See note 38 for further details.

### 21 Derivative financial instruments

	2023 £m	2022 £m
<b>Non-current assets</b>		
Interest rate swap	14	5
Forward fuel contracts	-	1
<b>Current assets</b>		
Forward fuel contracts	1	-
<b>Non-current liabilities</b>		
Forward fuel contracts	(1)	-
	<b>14</b>	<b>6</b>

The forward fuel contracts are shown and settled on a net basis. On a gross basis, the asset is £1m (2022: £1m) and the liability is £1m (2022: £nil).

In the current year, the net position of the forward fuel contracts is £nil. The interest rate swap asset has increased is due to fluctuations in interest rates.

## Notes to the consolidated financial statements (continued)

### 22 Provisions

	Property leases £m	Other £m	Total £m
At 1 February 2021	4	8	12
Utilised during the year	-	(5)	(5)
Released during the year	-	(2)	(2)
Charge for the year	-	9	9
<b>At 31 January 2022</b>	<b>4</b>	<b>10</b>	<b>14</b>
Utilised during the year	(1)	(7)	(8)
Released during the year	-	(1)	(1)
Charge for the year	-	6	6
<b>At 31 January 2023</b>	<b>3</b>	<b>8</b>	<b>11</b>
Current	-	5	5
Non-current	3	3	6
<b>At 31 January 2023</b>	<b>3</b>	<b>8</b>	<b>11</b>
Current	-	4	4
Non-current	4	6	10
At 31 January 2022	4	10	14

The property leases provision primarily relates to dilapidations. These sums are mainly expected to be paid out over the next 6 years; however, it will take 9 years to fully pay out all amounts provided for. The provision has been calculated at a risk-free rate.

Other provisions include a £2m provision (2022: £2m) in relation to a warranty for vehicle part replacements and £6m (2022: £8m) relating to self-funded insurance liabilities, where the Group provides for the cost of certain claims made against it, for example motor vehicle accident damage and employer liability claims. These sums are mainly expected to be paid out over the next 5 years; however, it can take up to 30 years for employer liability claims to pay out in full.

#### *Contingent Liabilities*

##### *Litigation – update on Mr Mackenzie's claim*

AA Limited and Mr Robert Mackenzie are pleased to confirm that Mr Mackenzie's long-standing actions against the Group have now been settled. The terms of the settlement are confidential. The AA's new management has seen from the evidence that has been put forward during this claim that Mr Mackenzie was very ill in 2017 at the time of the incident in question and are delighted that Mr Mackenzie is reported to have now made a full recovery.

From time to time the Group is subject to other claims and potential litigation. At the time of these financial statements, the Directors do not consider any such claims and litigation to have anything other than a remote risk of resulting in any material liability to the Group.

## Notes to the consolidated financial statements (continued)

### 23 Share capital

	2023 £m	2022 £m
<b>Allotted, called up and fully paid</b>		
360,893,049 (2022: 360,893,049) ordinary shares of £1 each	361	361
	<b>361</b>	<b>361</b>

### 24 Pensions

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The assets of the schemes are held separately from those of the Group in independently administered funds. The AAUK scheme has a closed final salary section and a Career Average Revalued Earnings (CARE) section which itself was closed on 31 March 2020 following consultation with affected employees.

All future pensions build-up from 1 April 2020 in the UK is now on a defined contribution basis. The CARE section provided for benefits to accrue on an average salary basis. During the 2017 financial year and following the sale of the Irish business by the Group, AA Corporation Limited, a UK subsidiary of the Group, became the sponsor of the AAI scheme. The Group also operates an unfunded post-retirement Private Medical Plan (AAPMP), which is treated as a defined benefit scheme and is not open to new entrants.

The AAUK scheme is governed by a corporate trustee whose board is currently composed of member-nominated and Company-nominated directors. The AAI scheme is governed by a corporate trustee whose board is currently composed of Company-nominated directors of which some are also members of the scheme. For both pension schemes the Company-nominated directors include an independent director whom the trustee board directors have nominated as Chairman. The trustee of each scheme is responsible for paying members' benefits and for investing scheme assets, which are legally separate from the Group.

The AAUK and AAI schemes are subject to full actuarial valuations every three years using assumptions agreed between the trustee of each scheme and the Group. The purpose of this valuation is to design a funding plan to ensure that the pension scheme has sufficient assets available to meet the future payment of benefits to scheme members.

The valuation of liabilities for funding purposes differs from the valuation for accounting purposes, mainly due to the different assumptions used and changes in market conditions between different valuation dates. For funding valuation purposes, the assumptions used to value the liabilities are agreed between the trustee and the Group with the discount rate, for example, being based on a bond yield plus a margin based on the assumed rate of return on scheme assets. For accounting valuation purposes, the assumptions used to value the liabilities are determined in accordance with IAS 19, with the discount rate, for example, being based on high-quality (AA rated) corporate bonds.

The valuations have been based on a full assessment of the liabilities of the schemes which have been updated where appropriate to 31 January 2023 by independent qualified actuaries.

The amounts recognised in the statement of financial position are as follows:

	As at 31 January 2023			Total £m
	AAUK £m	AAI £m	AAPMP £m	
Present value of the defined benefit obligation in respect of pension plans	(1,730)	(36)	(24)	(1,790)
Fair value of plan assets	1,579	42	-	1,621
<b>(Deficit)/surplus</b>	<b>(151)</b>	<b>6</b>	<b>(24)</b>	<b>(169)</b>

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

	As at 31 January 2022			Total £m
	AAUK £m	AAI £m	AAPMP £m	
Present value of the defined benefit obligation in respect of pension plans	(2,453)	(51)	(32)	(2,536)
Fair value of plan assets	2,617	49	-	2,666
<b>Surplus/(deficit)</b>	<b>164</b>	<b>(2)</b>	<b>(32)</b>	<b>130</b>

The overall surplus of £130m as at 31 January 2022 has moved to a deficit of £169m as at 31 January 2023, which represents a change of £299m over the year, driven primarily by movements in the AAUK scheme position.

Gilt yields increased significantly over 2022, with a high level of volatility seen during September and October in particular. The AAUK scheme invests part of its assets in a Liability Driven Investment ('LDI') mandate, held for risk management purposes. Specifically, this mandate has historically been designed to "hedge" the impact on the value of the AAUK scheme's liabilities from changes in gilt yields (and inflation), to help to protect the AAUK scheme's funding position. Gilt yield increases to mid-October led to a significant fall in the size of the liabilities, with a broadly corresponding fall in LDI assets.

Following the Bank of England intervention in October, gilt yields fell to lower levels. This led to an increase in the value of the AAUK scheme's liabilities – with a lower level of hedging, the asset value lagged behind. This had a meaningful impact in reducing the IAS 19 surplus from earlier in 2022. The IAS 19 position suffered further from (i) funding liabilities being larger than IAS 19 liabilities, plus contractions in AA-rated corporate bond yields relative to gilts, meaning that the fall in hedging assets (linked to the funding basis) were relatively larger than IAS 19 liability falls, (ii) worse than assumed performance of other asset classes, and (iii) very high price inflation experienced relative to long-term expectations at the start of year. In aggregate, these impacts meant that the AAUK scheme has moved into a statement of financial position deficit at 31 January 2023.

In February 2023, the actuarial triennial review for the AAUK pension scheme was completed as at 31 March 2022. This resulted in a significant reduction to the technical provisions deficit of around 60% from £131m as at 31 March 2019 to £53m. The Asset-Backed Funding mechanism, which provides a long-term deficit reduction plan, and additional contribution schedule remain in place from the 2019 valuation. Under the asset-back funding scheme, the Group makes an annual deficit reduction contribution of £15m increasing annually with inflation, until October 2038 or until the AAUK scheme funding deficit is removed if earlier, secured on the Group's brands. Under the additional contribution schedule (i.e. contributions in excess of the Asset-Backed Funding mechanism) the Group pays £12m per annum until July 2025. The trustee meets its own costs of running the AAUK scheme.

Consultation on the closure of the CARE section of the AAUK pension scheme commenced on 18 January 2020 through employee representatives and concluded on 18 March 2020. The Group had proposed that, from 1 April 2020, all future pension accrual would be on a defined contribution basis. Following a review of the feedback received during consultation, the Group confirmed on 27 March 2020 that the proposals were going to be implemented on a modified basis and future pension accrual would be on a defined contribution basis for all UK employees with transitional arrangements costing c. £11m over three years starting from 1 April 2020. Closure of the scheme has curtailed the ongoing build-up of defined benefit risk for the Group.

The agreed transitional arrangements provide a valuable enhanced Group pension contribution over a three-year period commencing 1 April 2020 available to all members who make a contribution of at least 4% of pensionable salary per year. Further enhancements to the Group pension contribution are also available during the transitional period to members willing to make higher contributions.

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

The next triennial actuarial valuation for the AA UK Pension Scheme will be carried out as at 31 March 2025 (the "2025 Valuation"). The AA and the AA UK Pension Trustee have until 30 June 2026 to agree the 2025 Valuation and any recovery plan to pay off any funding deficit identified.

The 2025 Valuation could vary from the 2022 Valuation meaning the payments required into the AA UK Pension Scheme under any recovery plan could increase or decrease from those agreed for the 2022 Valuation.

The ongoing volatility from accrual costs has been removed but future volatility of deficit costs does remain. Markets still have the potential to be volatile following the reporting date. The Group is exposed to various risks in connection with the funding of the pension commitments under the AA UK Pension Scheme (our principal defined benefit plan), the AA Ireland Pension Scheme and our post-retirement medical scheme, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

The assets of the AA UK Pension Scheme and the AA Ireland Pension Scheme are invested in various investment vehicles which are susceptible to market volatility, interest rate risk and other market risks, any of which could result in decreased asset value and a significant increase in our net pension obligations.

Using an inflation assumption of 3.1% and a discount rate assumption of 4.5%, the present value of the future deficit reduction contributions has been calculated. These contributions remain due until such a time as another recovery plan is put in place, whether or not an IAS 19 surplus position is shown. The Group notes that, in the event a surplus is shown, it would have an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

The actuarial triennial review as at 31 December 2019 for the AAI pension scheme was completed during September 2020. This resulted in a reduction to the funding deficit of 50% from c. £8m as at 31 December 2016 to c. £4m as at 31 December 2019. The Group made deficit reduction contributions of £1m in the year ended 31 January 2023 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2024 (an extension of one year over the previous agreement) or until an alternative agreement is signed with the AAI scheme trustee.

In total, the Group paid £28m (2022: £27m) in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2023.

In January 2022, the Group completed a full accounting valuation of the AAPMP with a valuation date of 31 January 2021. This updated the previous full accounting valuation of the AAPMP that was performed as at 31 January 2017 and was projected forward to relevant reporting dates.

The 31 January 2021 full accounting valuation of the AAPMP revealed a reduction in reported deficit as a result of the actual level of medical premium inflation experienced being lower than that assumed over the period between full valuations and the impact of the latest longevity expectations.

The Group recognised a charge in the consolidated income statement of £26m in respect of defined contribution pension scheme costs in the year (2022: £27m).

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

#### Total Group schemes

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2021	2,631	(2,819)	-	-
Past service cost	-	(26)	(26)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	40	(42)	(2)	-
<b>Amounts recognised in the income statement</b>	<b>36</b>	<b>(68)</b>	<b>(32)</b>	-
Effect of changes in financial assumptions	-	211	-	211
Effect of changes in demographic assumptions	-	11	-	11
Effect of experience adjustment	-	47	-	47
Return on plan assets excluding interest income	53	-	-	53
<b>Amounts recognised in the statement of comprehensive income</b>	<b>53</b>	<b>269</b>	-	<b>322</b>
<b>Foreign exchange (loss)/gain</b>	<b>(3)</b>	<b>3</b>	-	-
Benefits paid from scheme assets	(79)	79	-	-
Ongoing employer contributions	1	-	-	-
Deficit reduction employer contributions	27	-	-	-
<b>Movements through cash</b>	<b>(51)</b>	<b>79</b>	-	-
<b>Balance at 31 January 2022</b>	<b>2,666</b>	<b>(2,536)</b>	-	-
Administrative expenses	(5)	-	(5)	-
Interest on defined benefit scheme assets/(liabilities)	60	(57)	3	-
<b>Amounts recognised in the income statement</b>	<b>55</b>	<b>(57)</b>	<b>(2)</b>	-
Effect of changes in financial assumptions	-	844	-	844
Effect of changes in demographic assumptions	-	22	-	22
Effect of experience adjustment	-	(134)	-	(134)
Return on plan assets excluding interest income	(1,058)	-	-	(1,058)
<b>Amounts recognised in the statement of comprehensive income</b>	<b>(1,058)</b>	<b>732</b>	-	<b>(326)</b>
<b>Foreign exchange (loss)/gain</b>	<b>2</b>	<b>(2)</b>	-	-
Benefits paid from scheme assets	(73)	73	-	-
Ongoing employer contributions	1	-	-	-
Deficit reduction employer contributions	28	-	-	-
<b>Movements through cash</b>	<b>(44)</b>	<b>73</b>	-	-
<b>Balance at 31 January 2023</b>	<b>1,621</b>	<b>(1,790)</b>	-	-

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

#### AAUK scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2021	<b>2,580</b>	<b>(2,713)</b>	-	-
Past service cost	-	(26)	(26)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	40	(41)	(1)	-
<b>Amounts recognised in the income statement</b>	<b>36</b>	<b>(67)</b>	<b>(31)</b>	-
Effect of changes in financial assumptions	-	206	-	206
Effect of changes in demographic assumptions	-	11	-	11
Effect of experience adjustment	-	34	-	34
Return on plan assets excluding interest income	51	-	-	51
<b>Amounts recognised in the statement of comprehensive income</b>	<b>51</b>	<b>251</b>	-	<b>302</b>
Benefits paid from scheme assets	(76)	76	-	-
Deficit reduction employer contributions	26	-	-	-
<b>Movements through cash</b>	<b>(50)</b>	<b>76</b>	-	-
<b>Balance at 31 January 2022</b>	<b>2,617</b>	<b>(2,453)</b>	-	-
Administrative expenses	(5)	-	(5)	-
Interest on defined benefit scheme assets/(liabilities)	59	(55)	4	-
<b>Amounts recognised in the income statement</b>	<b>54</b>	<b>(55)</b>	<b>(1)</b>	-
Effect of changes in financial assumptions	-	820	-	820
Effect of changes in demographic assumptions	-	21	-	21
Effect of experience adjustment	-	(133)	-	(133)
Return on plan assets excluding interest income	(1,049)	-	-	(1,049)
<b>Amounts recognised in the statement of comprehensive income</b>	<b>(1,049)</b>	<b>708</b>	-	<b>(341)</b>
Benefits paid from scheme assets	(70)	70	-	-
Deficit reduction employer contributions	27	-	-	-
<b>Movements through cash</b>	<b>(43)</b>	<b>70</b>	-	-
<b>Balance at 31 January 2023</b>	<b>1,579</b>	<b>(1,730)</b>	-	-

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

#### AAI scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2021	51	(60)	-	-
<b>Amounts recognised in the income statement</b>	-	-	-	-
Effect of changes in financial assumptions	-	4	-	4
Return on plan assets excluding interest income	2	-	-	2
<b>Amounts recognised in the statement of comprehensive income</b>	<b>2</b>	<b>4</b>	-	<b>6</b>
<b>Foreign exchange (loss)/gain</b>	<b>(3)</b>	<b>3</b>	-	-
Benefits paid from scheme assets	(2)	2	-	-
Ongoing employer contributions	-	-	-	-
Deficit reduction employer contributions	1	-	-	-
<b>Movements through cash</b>	<b>(1)</b>	<b>2</b>	-	-
<b>Balance at 31 January 2022</b>	<b>49</b>	<b>(51)</b>	-	-
Interest on defined benefit scheme assets/(liabilities)	1	(1)	-	-
<b>Amounts recognised in the income statement</b>	<b>1</b>	<b>(1)</b>	-	-
Effect of changes in financial assumptions	-	16	-	16
Return on plan assets excluding interest income	(9)	-	-	(9)
<b>Amounts recognised in the statement of comprehensive income</b>	<b>(9)</b>	<b>16</b>	-	<b>7</b>
<b>Foreign exchange (loss)/gain</b>	<b>2</b>	<b>(2)</b>	-	-
Benefits paid from scheme assets	(2)	2	-	-
Deficit reduction employer contributions	1	-	-	-
<b>Movements through cash</b>	<b>(1)</b>	<b>2</b>	-	-
<b>Balance at 31 January 2023</b>	<b>42</b>	<b>(36)</b>	-	-

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

#### AA PMP scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2021	-	(46)	-	-
Interest on defined benefit scheme liabilities	-	(1)	(1)	-
<b>Amounts recognised in the income statement</b>	-	<b>(1)</b>	<b>(1)</b>	-
Effect of changes in financial assumptions	-	1	-	1
Effect of experience adjustment	-	13	-	13
<b>Amounts recognised in the statement of comprehensive income</b>	-	<b>14</b>	-	<b>14</b>
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
<b>Movements through cash</b>	-	<b>1</b>	-	-
<b>Balance at 31 January 2022</b>	-	<b>(32)</b>	-	-
Interest on defined benefit scheme liabilities	-	(1)	(1)	-
<b>Amounts recognised in the income statement</b>	-	<b>(1)</b>	<b>(1)</b>	-
Effect of changes in financial assumptions	-	8	-	8
Effect of changes in demographic assumptions	-	1	-	1
Effect of experience adjustment	-	(1)	-	(1)
<b>Amounts recognised in the statement of comprehensive income</b>	-	<b>8</b>	-	<b>8</b>
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
<b>Movements through cash</b>	-	<b>1</b>	-	-
<b>Balance at 31 January 2023</b>	-	<b>(24)</b>	-	-

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

#### Fair value of plan assets

The tables below show the AAUK and AAI scheme assets split between those that have a quoted market price and those that are unquoted.

The fair value of the AAUK scheme assets and the return on those assets were as follows:

	2023		2022	
	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	-	88	-	439
Bonds/gilts	326	325	322	667
Property	6	209	15	300
Hedge funds	1	60	-	194
Private equity	-	138	-	110
Cash/net current assets	46	14	19	66
Annuity policies	-	366	-	485
<b>Total AAUK scheme assets</b>	<b>379</b>	<b>1,200</b>	<b>356</b>	<b>2,261</b>
<b>Movement on AAUK plan assets</b>		<b>(990)</b>		<b>91</b>

The above table displays the quoted and unquoted splits of the underlying investments.

The AAUK scheme assets are largely invested in pooled funds, with the market values provided by the scheme's custodian, Bank of New York Mellon Corporation (BNYM). Some of the pooled funds themselves are not listed on any publicly traded exchange and are therefore described as unquoted except where we are aware of a specific look-through to allow part of the assets within the fund to be described as quoted.

During the year, the LDI hedge required posting of funds to support its value, resulting in the reduction of liquid assets.

Of the £1,200m (2022: £2,261m) assets without a quoted market price at 31 January 2023, £366m (2022: £485m) is in relation to the buy-in policies held by the scheme. Under IAS 19, the fair value of the insurance policies is deemed to be the present value of the related defined benefit obligations. Hence a key area of judgement is the assumptions used to derive the value of the corresponding obligations.

Approximately £19m (2022: £29m) of unquoted assets allocated to private equity and £10m (2022: £13m) of unquoted assets allocated to property have been measured at amortised cost rather than fair value.

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

The fair value of the AAI scheme assets and the return on those assets were as follows:

	2023		2022	
	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	3	-	8	-
Bonds/gilts	29	-	27	-
Property	-	7	-	6
Hedge funds	3	-	8	-
<b>Total AA Ireland scheme assets</b>	<b>35</b>	<b>7</b>	<b>43</b>	<b>6</b>
<b>Movement on AA Ireland plan assets</b>		<b>(8)</b>		<b>2</b>

#### Investment strategy

The AAUK scheme trustee determines its investment strategy after taking advice from a professional investment adviser. The AAUK scheme's investment strategy has been set following an asset/liability review which considered a wide range of investment opportunities available to the scheme and how they might perform in combination. Other factors were also taken into account such as the strength of the employer covenant, the long-term nature of the liabilities and the funding plan agreed with the employer.

The AAUK scheme trustee aims to achieve the scheme's investment objectives through investing in a diversified portfolio of growth assets which, over the long term, are expected to grow in value by more than low-risk assets like cash and gilts. This is done within a broad liability driven investing framework that also uses such cash and gilts in a capital efficient way. In combination, this efficiently captures the trustee risk tolerances and return objectives relative to the scheme's liabilities. A number of investment managers are appointed to promote diversification by assets, organisation and investment style.

To diversify sources of return and risk, the AAUK scheme invests in many asset classes and strategies, including equities, bonds and property funds which primarily rely on the upward direction of the underlying markets for returns, and also hedge funds which also invest in asset classes like equities, bonds and currencies, but in such a way that relies more on the skill of the investment manager to add returns while hedging against downward market moves.

The AAUK scheme trustee's investment advisers carry out detailed ongoing due diligence on funds in all asset classes from both operational and investment capability standpoints, and any funds which are not expected to achieve their investment performance targets are replaced where possible.

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

#### Pension plan assumptions

The principal actuarial assumptions were as follows:

	AAUK		AAI		AAPMP	
	2023 %	2022 %	2023 %	2022 %	2023 %	2022 %
Pensioner discount rate	4.5	2.3	3.4	1.1	4.5	2.3
Non-pensioner discount rate	4.5	2.3	3.4	1.4	4.5	2.3
Pensioner RPI	3.1	3.6	-	-	3.1	3.6
Non-pensioner RPI	3.1	3.3	-	-	3.1	3.6
Pensioner CPI	2.3	3.0	2.3	1.9	2.3	3.0
Non-pensioner CPI	2.3	2.7	2.3	1.9	2.3	3.0
Rate of increase of pensions in payment (final salary sections) – pensioner	2.9	3.5	-	-	-	-
Rate of increase of pensions in payment (final salary sections) – non-pensioner	2.9	3.2	-	-	-	-
Rate of increase of pensions in payment (CARE section) – pensioner	1.7	2.2	-	-	-	-
Rate of increase of pensions in payment (CARE section) – non-pensioner	1.7	2.0	-	-	-	-
Pension increase for deferred benefits	2.3	2.7	2.3	1.9	-	-
Medical premium inflation rate	-	-	-	-	7.1	7.6

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2023, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (2022 – SAPS (S3) series with scheme-specific adjustments) with future improvements in line with the CMI\_2021 model with a 1.25% long-term rate of improvement plus 2020 and 2021 experience weightings of 10% (2022 – CMI\_2020 model with a 1.25% long-term rate of improvement). The AAI scheme mortality assumptions are set using standard tables with scheme-specific adjustments.

An inflation volatility assumption of 2.00% p.a. was used.

The AA schemes' overall assumptions are that a non-pensioner male retiring in normal health currently aged 60 will live on average for a further 25 years (2022: 25 years) and a non-pensioner female retiring in normal health currently aged 60 will live on average for a further 28 years (2022: 28 years).

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

#### Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit liability by the amounts shown below:

	For the year ended 31 January 2023		
	AAUK £m	AAI £m	AAPMP £m
Increase of 1% in discount rate	234	6	3
Increase of 1% in RPI and CPI	(193)	(3)	-
Increase of 1% in CPI only	(79)	(3)	-
Increase of 1% in medical claims inflation	-	-	(3)
Increase of one year of life expectancy	(51)	(1)	-

An equivalent decrease in the assumptions at 31 January 2023 would have had a broadly equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant. The amounts shown above are the effects of changing the assumptions on the gross defined benefit liability, rather than on the net deficit. The de-risked investment strategy, the two insured annuity policies and high levels of hedging reduce the sensitivities of changing these assumptions on the net surplus considerably.

The weighted average duration of the defined benefit obligation at 31 January 2023 is around 15 years.

#### Pension scheme risks

The AAUK and AAI schemes have exposure to a number of risks because of the investments they make in following their investment strategy. Investment objectives and risk limits are implemented through the investment management agreements in place with the schemes' investment managers and monitored by the trustees of each scheme through regular reviews of the investment portfolios. In addition, under guidance from their investment advisers, the trustees of each scheme monitor estimates of key risks on an ongoing basis such as those shown below. A number of measures are taken to mitigate these risks where possible.

##### *Credit risk*

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This risk mainly relates to the schemes' bonds and is mitigated by carrying out due diligence and investing only in bond funds which are well diversified in terms of credit instrument, region, credit rating and issuer of the underlying bond assets. To reduce risk further, the underlying bond assets within a fund are ring-fenced, and the scheme diversifies across a number of bond funds.

##### *Currency risk*

The scheme is subject to currency risk because some of the scheme's investments are in overseas markets. The trustee hedges some of this currency risk by investing in investment funds which hold currency derivatives to protect against adverse fluctuations in the relative value of its portfolio positions as a result of changes in currency exchange rates.

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

#### Pension scheme risks (continued)

##### *Market price risk*

This is the risk that the fair value or future cash flows of a financial asset such as equities will fluctuate because of changes in market prices (other than those arising from interest rate, inflation or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets and investment managers.

##### *Financial derivatives risk*

The AAUK scheme does not directly hold any financial derivatives but instead invests in investment funds which hold the derivatives required to hedge the scheme's interest rate, inflation and currency risks. The scheme also permits some of the investment managers to use derivative instruments if these are being used to contribute to a reduction of risks or facilitate efficient portfolio management of their funds. The main risks associated with financial derivatives include: losses may exceed the initial margin; counterparty risk where the other party defaults on the contract; and liquidity risk where it may be difficult to close out a contract prior to expiry. These risks are managed by monitoring of investment managers to ensure that they use reasonable levels of market exposure relative to initial margin and positions are fully collateralised on a daily basis with secure cash or gilts collateral.

##### *Liquidity risk*

Alongside contributions received from the Group, the AAUK scheme's investments need to generate sufficient cash inflow to meet member benefits as they fall due. In addition, the AAUK scheme should also maintain enough liquid financial resources to support the financial derivatives used in, for example, the hedging strategy via the LDI mandate. Holding insufficient liquid resources could risk the AAUK scheme being unable to realise investments at their expected value in a timely manner, which could lead to reductions in the funding position or a reduction in the level of hedging in place.

The AAUK scheme aims to hedge the majority of both the interest rate risk and inflation risk (of the non-insured liabilities on the scheme-specific self-sufficiency measure) as part of a policy to reduce financial risks. As at 31 January 2023, the scheme had hedged around 70% of interest rate and 80% of inflation risk (of the non-insured liabilities on the scheme-specific self-sufficiency measure). The reduction from 80% of interest rate risk at 31 January 2022 reflects the reduction in hedging resulting from increased liquidity requirements and market movements affecting the LDI mandate. Hedging levels fluctuate regularly as market conditions evolve and the scheme trustees, along with their advisers, closely monitor these fluctuations. Where changes are needed to the level of hedging, the scheme trustees effect this, in consultation with the Group, with consideration to prevailing pricing and risk appetite.

#### **Bulk annuity policies**

The AAUK scheme holds two bulk annuity policies with a total fair value of £366m as at 31 January 2023. The bulk annuity policy purchased in August 2018 insured all the benefits payable under the scheme in respect of 2,510 pensioner and dependant members, while the bulk annuity policy purchased in September 2019 insured all the benefits payable under the scheme in respect of a further 1,790 pensioner and dependant members.

## Notes to the consolidated financial statements (continued)

### 24 Pensions (continued)

#### Bulk annuity policies (continued)

The Trustee has invested in such policies as the scheme will see all financial and demographic risks exactly matched for the covered members. The annuity policies were purchased in the name of the trustee and therefore remain assets of the AAUK scheme. Under IAS 19, these policies are considered to be qualifying insurance policies which exactly match the amount and timing of certain benefits payable under the scheme. The fair value of the insurance policies is therefore deemed to be the present value of the related defined benefit obligations.

The bulk annuity policies mean that the AAUK scheme has hedged the associated longevity risks on c.20% of the scheme's IAS 19 liabilities.

While risks remain, the hedging strategy noted above, including the bulk annuity purchases, is important in controlling the Group's exposure to future increases in the deficit.

### 25 Impairment of intangible assets

Goodwill acquired through business combinations has been allocated to cash-generating units (CGUs) on initial recognition and for subsequent impairment testing. CGUs represent the smallest group of assets that independently generate cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

The carrying value of goodwill by CGU is as follows:

	2023 £m	2022 £m
Roadside Assistance	874	874
Insurance Services	240	240
AA Cars	25	25
Drivetech	25	31
	<b>1,164</b>	<b>1,170</b>

The Group has performed impairment testing at 31 January 2023 and 31 January 2022. The impairment test compares the recoverable amount of the CGU with its carrying value.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections from the Group's five-year plan. For the year ended 31 January 2023, the Group used the five-year plan, adjusted for expected changes, covering the four years up to 31 January 2027 and a 1.95% expectation of growth in the subsequent year up to 31 January 2027. For the purposes of the impairment test, terminal values have been calculated using a 1.95% growth assumption (2022: 2.01%). Cash flows have been discounted at a pre-tax rate reflecting the time value of money and the risks specific to these cash flows. This has been determined as a pre-tax rate of 11.7% (2022: 10.2%). The equivalent post-tax rate was 8.8% (2022: 7.7%).

The cash flow projections are forecast using historical trends overlaid with business-led assumptions such as contract wins, sales volumes, prices and capex investment requirements, which include the impact of climate change, together with operational KPIs such as number of personal members, number of business customers, insurance policies in force, renewal rates and average repair times. These allow the business to forecast profits, working capital and capital expenditure requirements.

## Notes to the consolidated financial statements (continued)

### 25 Impairment of intangible assets (continued)

The above exercise indicated an impairment in the Drivetech (driver education business) CGU due to lower volumes following the termination of one contract providing speed awareness courses, and as a result, an impairment of £6m has been recognised in the year. In assessing the future cash flow forecasts that underpin the Drivetech goodwill assessment, assumptions have been made about the renewal of existing customers' contracts and also the signing up of new customers, including over the next 12 months. In the event these assumptions are not achieved underlying cash flows would be impacted, which if not mitigated, would lead to further impairment. It is not possible to indicate with certainty the amount at risk if renewal/new customer rate assumptions fell short of the forecasts, however a reduction in forecasted cash flows of between 10% and 50% could result in additional impairment of £2m to £12m. An increase in the discount rate of 1% would result in an additional impairment of £2m.

Except as noted above, the value in use calculation used is most sensitive to the assumptions used for growth and the discount rate. Accordingly, stress testing has been performed on these key assumptions as part of the impairment test to further inform the consideration of whether any impairment is evident. From the results of this stress testing, it was concluded that, with the exception of Drivetech, no reasonably foreseeable change in the key assumptions would result in the recoverable amount being materially less than the carrying amount for any of the CGUs.

Goodwill was not impaired for any of the above CGUs in the prior financial year.

### 26 Financial assets and financial liabilities

The carrying amount of all financial assets and financial liabilities by class are as follows:

#### Financial assets

	2023 £m	2022 £m
<b>Financial assets at fair value through other comprehensive income</b>		
Derivative financial instruments (see note 21)	15	6
<b>Financial assets at amortised cost</b>		
Loans to related parties	4	4
Cash and cash equivalents (see note 16)	99	67
Trade receivables (see note 15)	163	158
Contract assets and other receivables (see note 15)	35	26
Amounts owed by parent undertakings	1,211	1,208
Other receivables – non-current (see note 15)	6	-
<b>Total financial assets</b>	<b>1,533</b>	<b>1,469</b>

Loans to related parties comprise £4m of 5% fixed rate loan notes issued from AA Media Limited to the Group, redeemable at par on 29 March 2024.

## Notes to the consolidated financial statements (continued)

### 26 Financial assets and financial liabilities (continued)

#### Financial liabilities

	2023 £m	2022 £m
<b>Financial liabilities at fair value through other comprehensive income</b>		
Derivative financial instruments (see note 21)	1	-
<b>Financial liabilities at amortised cost</b>		
Trade payables (see note 18)	123	111
Other payables and accruals (see note 18)	90	73
Amounts due to parent undertakings	70	73
Lease liabilities (see note 28)	59	45
Borrowings (see note 19)	2,309	2,306
<b>Total financial liabilities</b>	<b>2,652</b>	<b>2,608</b>

#### Fair values

Financial instruments held at fair value are valued using quoted market prices or other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, and comparison to similar instruments for which market observable prices exist. Assumptions and market observable inputs used in valuation techniques include interest rates.

The objective of using valuation techniques is to arrive at a fair value that reflects the price of the financial instrument at each year end at which the asset or liability would have been exchanged by market participants acting at arm's length.

Observable inputs are those that have been seen either from counterparties or from market pricing sources and are publicly available. The use of these depends upon the liquidity of the relevant market. When measuring the fair value of an asset or a liability, the Group uses observable inputs as much as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation as follows:

##### *Level 1*

Quoted market prices in an actively traded market for identical assets or liabilities. These are the most reliable.

##### *Level 2*

Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets. The models incorporate various inputs including interest rate curves and forward rate curves of the underlying instrument.

##### *Level 3*

Inputs for assets or liabilities that are not based on observable market data.

If the inputs used to measure the fair values of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level as the lowest input that is significant to the entire measurements.

The fair values are periodically reviewed by the Group Treasury function. The following tables provide the quantitative fair value hierarchy of the Group's fuel and interest rate swaps and loan notes.

## Notes to the consolidated financial statements (continued)

### 26 Financial assets and financial liabilities (continued)

#### Fair values (continued)

The carrying values of all other financial assets and liabilities (including the Senior Term Facility) are approximate to their fair values:

**At 31 January 2023:**

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
<b>Financial assets measured at fair value</b>				
Forward fuel contracts (note 21)	1	1	-	-
Interest rate swap derivatives (note 21)	14	14	-	-
<b>Liabilities for which fair values are disclosed</b>				
Loan notes (note 20)	2,160	2,022	-	-
Forward fuel contracts (note 21)	1	1	-	-

**At 31 January 2022:**

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
<b>Financial assets measured at fair value</b>				
Forward fuel contracts (note 21)	1	1	-	-
Interest rate swap derivatives (note 21)	5	5	-	-
<b>Liabilities for which fair values are disclosed</b>				
Loan notes (note 20)	2,157	2,274	-	-

There have been no transfers between the levels and no non-recurring fair value measurements of assets and liabilities during the two years to 31 January 2023.

### 27 Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings as well as trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include deposits with financial institutions, money market funds and trade receivables.

The Group is exposed to market risk, credit risk, liquidity risk and insurance risk. The Group's senior management oversees the management of these risks, supported by the Group Treasury function. The Group Treasury function ensures that the Group's financial risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities are for risk management purposes and are carried out by the Group Treasury function. It is the Group's policy not to trade in derivatives for speculative purposes.

## Notes to the consolidated financial statements (continued)

### 27 Financial risk management objectives and policies (continued)

#### Financial risk management objectives and policies (continued)

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

#### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in prices set by the market. The key market risk that the Group is exposed to is future interest rate rises with respect to borrowings. The Group has policies and limits approved by the Board for managing the interest rate risk exposure. The Group's policy is to fully hedge all of its exposure to variable interest rates. The Group therefore takes out interest rate swaps to the value of its variable rate instruments.

The Group seeks to manage the impact of variable fuel prices through managing its procurement contracts with suppliers and by hedging the indexed element of diesel costs using Contracts for Difference. The Group has currently hedged 100% of forecast diesel usage for the year ended 31 January 2024 and c.50% of forecast usage for the year ended 31 January 2025.

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	2023 £m	2022 £m
<b>Fixed rate instruments</b>		
Financial assets	4	4
Financial liabilities	(2,219)	(2,201)
<b>Net exposure to fixed rate instruments</b>	<b>(2,215)</b>	<b>(2,197)</b>
<b>Variable rate instruments</b>		
Financial liabilities	(149)	(150)
<b>Net exposure to variable rate instruments</b>	<b>(149)</b>	<b>(150)</b>

#### Sensitivity of fixed-rate instruments

The Group does not account for any fixed-rate financial assets and financial liabilities at fair value through profit or loss and does not use derivative instruments in fair value hedges. Consequently, having regard to fixed rate instruments, a change in market interest rates at the reporting date would not affect profit or loss.

#### Sensitivity of variable rate instruments

An increase of 50 basis points in interest rates at 31 January 2023 would have increased equity by £nil (2022: £nil) and would have had no impact on profit or cash because the variable rate on the Senior Term Facility, which was drawn during the current year, is hedged by an interest rate swap.

## Notes to the consolidated financial statements (continued)

### 27 Financial risk management objectives and policies (continued)

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk in relation to its financial assets, outstanding derivatives and trade and other receivables. The Group assesses its counterparty exposure in relation to the investment of surplus cash and undrawn credit facilities. The Group primarily uses published credit ratings to assess counterparty strength and therefore to define the credit limit for each counterparty, in accordance with approved treasury policies.

The credit risk for the Group is limited as payment from customers is generally required before services are provided.

Credit risk in relation to deposits and derivative counterparties is managed by the Group Treasury function in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to mitigate financial loss through any potential counterparty failure.

The Group's maximum exposure to credit risk for the components of the statement of financial position at each reporting date is the carrying amount except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments is noted under liquidity risk.

The ageing analysis net of trade receivables is as follows:

	Total £m	Current £m	< 30 days £m	30 - 60 days £m	60+ days £m
<b>2023</b>	<b>163</b>	<b>138</b>	<b>9</b>	<b>5</b>	<b>11</b>
2022	158	142	9	6	1

The ageing analysis of gross trade receivables is as follows:

	Total £m	Current £m	< 30 days £m	30 - 60 days £m	60+ days £m
<b>2023</b>	<b>168</b>	<b>140</b>	<b>10</b>	<b>5</b>	<b>13</b>
2022	162	144	9	6	3

The movements in the provision for the collective impairment of receivables are as follows:

	2023 £m	2022 £m
At 1 February	4	4
Charge for the year	2	2
Utilised	(1)	(2)
<b>At 31 January</b>	<b>5</b>	<b>4</b>

## Notes to the consolidated financial statements (continued)

### 27 Financial risk management objectives and policies (continued)

#### Liquidity risk

Liquidity risk is the risk that the Group either does not have available sufficient financial resources to enable it to meet its obligations as they fall due or can secure them only at excessive cost. The Group's approach to managing liquidity risk is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and headroom on its working capital facilities.

The table below analyses the maturity of the Group's financial liabilities on a contractual undiscounted cash flow basis and includes any associated debt service costs. The analysis of non-derivative financial liabilities is based on the remaining period at the reporting date to the contractual maturity date.

#### At 31 January 2023:

	Less than 1 year £m	1 - 2 years £m	2-5 years £m	Over 5 years £m	Total £m
Loans and borrowings	109	656	1,425	552	<b>2,742</b>
Lease liabilities	25	19	15	15	<b>74</b>
Other payables and accruals	90	-	-	-	<b>90</b>
Trade payables	123	-	-	-	<b>123</b>
	<b>347</b>	<b>675</b>	<b>1,440</b>	<b>567</b>	<b>3,029</b>

#### At 31 January 2022:

	Less than 1 year £m	1 - 2 years £m	2-5 years £m	Over 5 years £m	Total £m
Loans and borrowings	115	354	1,618	617	<b>2,704</b>
Lease liabilities	17	8	12	23	<b>60</b>
Other payables and accruals	73	-	-	-	<b>73</b>
Trade payables	111	-	-	-	<b>111</b>
	<b>316</b>	<b>362</b>	<b>1,630</b>	<b>640</b>	<b>2,948</b>

#### Capital management

The Group considers its capital to be its Net Debt.

The capital structure can be summarised as below:

	2023 £m	2022 £m
Total net debt	<b>2,285</b>	2303
<b>Total capital</b>	<b>2,285</b>	2303

## Notes to the consolidated financial statements (continued)

### 27 Financial risk management objectives and policies (continued)

#### Credit risk (continued)

#### Capital management (continued)

The Group's objectives when managing capital have been:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to put service, innovation and data at the heart of the AA;
- to deliver targeted and strategic investment in our people, our products, our systems and operations;
- to reduce Group borrowings and associated interest costs.

The Group monitors capital using Net Debt to debt covenant EBITDA ratios. The key ratios are Senior Secured Debt to debt covenant EBITDA, and Net Debt to debt covenant EBITDA as calculated below:

	2023 £m	2022 £m
Senior Term Facility	150	150
Class A Notes	1,895	1,895
Less: Cash and cash equivalents	(99)	(67)
Net Senior Secured Debt <sup>1</sup>	1,946	1,978
Class B Notes	280	280
Lease obligations for covenant reporting <sup>2</sup>	31	20
Net Whole Business Securitisation (WBS) Debt <sup>3</sup>	2,257	2,278
IFRS 16 lease adjustment for lease obligations <sup>4</sup>	28	25
Net Debt	2,285	2,303
AA Intermediate Co Limited debt covenant EBITDA <sup>5</sup>	336	321
	Covenant	
Class B leverage ratio <sup>6</sup>	6.7x	7.1x
Senior Leverage ratio <sup>7</sup>	5.8x	6.2x
Class A Free Cash Flow: Debt Service <sup>8</sup>	>1.35x	3.1x

<sup>1</sup> Principal amounts of the Senior Term Facility and Class A Notes less AA Intermediate Co Limited group cash and cash equivalents.

<sup>2</sup> The lease obligations for covenant reporting value are presented based on frozen GAAP pre-IFRS 16, as required by the debt documents. The figure above is therefore different to the lease liabilities value shown in the statement of financial position.

<sup>3</sup> Net WBS Debt represents the borrowings and cash balances within the WBS structure headed by AA Intermediate Co Limited. This includes the principal amounts of the Senior Term Facility, Class A Notes, Class B3 Notes and lease obligations for covenant reporting, less AA Intermediate Co Limited group cash and cash equivalents.

<sup>4</sup> Difference between lease obligations for covenant reporting based on frozen GAAP and the lease liabilities value shown in the statement of financial position, having adopted IFRS 16 from 1 February 2019.

<sup>5</sup> AA Intermediate Co Limited group debt covenant EBITDA, including discontinued operations as required by the debt documents, being Reported EBITDA based on frozen GAAP and accounting principles.

<sup>6</sup> Ratio of Net WBS Debt<sup>3</sup> to AA Intermediate Co Limited group debt covenant EBITDA.

<sup>7</sup> Ratio of Net Senior Secured Debt<sup>1</sup> to AA Intermediate Co Limited group debt covenant EBITDA.

<sup>8</sup> Ratio of free cash flow to proforma debt service relating to the Senior Term Facility and Class A Notes.

## Notes to the consolidated financial statements (continued)

### 28 Commitments and contingencies

#### Lease commitments

The Group has lease contracts for property, plant, equipment and vehicles. Future minimum lease payments under lease contracts together with the present value of the net minimum lease payments are as follows:

	2023		2022	
	Present value of payments £m	Minimum payments £m	Present value of payments £m	Minimum payments £m
Within one year	23	25	15	17
Between one and five years	30	34	16	20
After five years	6	15	14	23
Total minimum lease payments	59	74	45	60
Less amounts representing finance charge	-	(15)	-	(15)
Present value of minimum lease payments	59	59	45	45

Where a property is no longer used by the Group for operational purposes, tenants are sought to reduce the Group's exposure to lease payments. Where the future minimum lease payments are in excess of any expected rental income due, the corresponding right-of-use asset is impaired by this excess.

#### Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £10m (2022: £7m).

### 29 Subsidiary undertakings

The subsidiary undertakings of the Company, all of which are wholly owned except where stated, are listed in note 8 of the Company financial statements.

### 30 Auditors' remuneration

	2023 £m	2022 £m
<b>Amounts receivable by the Company's auditors and their associates in respect of:</b>		
Audit of financial statements of subsidiaries of the Company	1	1

The fee for the audit of these financial statements was £43,000 (2022: £40,000).

In addition, fees for non-audit services provided by the Company's auditors were £0.2m (2022: £0.1m), relating to audit-related assurance services.

## Notes to the consolidated financial statements (continued)

### 31 Related party transactions

#### Transactions with key management personnel:

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. A loan of £0.2m was made to a member of key management personnel in the prior year at an interest rate of 1.3% per annum from Automobile Association Developments Limited in relation to the Management Equity Plan.

The following tables provide the total value of transactions that have been entered into with associates and joint ventures during each financial year:

#### Transactions with associates:

Associate	Nature of transaction	2023 £m	2022 £m
ARC Europe SA	Registration and call handling fees	2	2

At 31 January 2023, the Group had an outstanding balance payable to ARC Europe SA of £nil (2022: £1m) comprising trade payables in respect of the above transactions.

#### Transactions with joint ventures:

Joint venture	Nature of transaction	2023 £m	2022 £m
Drvn Solutions Limited	Goods supplied by Drvn Solutions Limited	1	1

At 31 January 2023, the Group had an outstanding balance receivable from AA Media Limited of £4m comprising fixed rate loan notes (2022: £4m).

The outstanding balances with other Basing ConsortiumCo Limited group companies are as follows:

Entity	Relationship	2023 £m	2022 £m
AA Mid Co Limited	Immediate parent	1,206	1,205
AA Technical Services Limited	Fellow subsidiary	3	1
Longacre Claims Limited	Fellow subsidiary	1	1
AA Underwriting Insurance Company Limited	Fellow subsidiary	(70)	(73)
Basing BidCo Limited	Indirect parent	-	1
Basing TopCo Limited	Indirect parent	1	-
		<b>1,141</b>	<b>1,135</b>

#### Cross-company guarantees

The Company is an obligor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2023, the principal outstanding on the AA Intermediate Co Limited group debt was £2,325m (2022: £2,325m).

The Group has an interest in a partnership, AA Pension Funding LP, which is fully consolidated in the Group financial statements. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to the Group financial statements. Separate financial statements for the partnership are not required to be, and have not been, filed at Companies House.

## Notes to the consolidated financial statements (continued)

### 32 Compensation of key management personnel of the Group

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

Key management personnel consist of the Chief Executive Officer, Chief Financial Officer, the Executive Committee and the Non-Executive Directors.

The amounts recognised as an expense during the financial year in respect of key management personnel were as follows:

	2023 £m	2022 £m
Short-term employee benefits	7	6
Share-based payments (see note 33)	1	1
Compensation for loss of office	-	1
<b>Total compensation paid to key management personnel</b>	<b>8</b>	<b>8</b>

### 33 Share-based payments

	2023 £m	2022 £m
Equity-settled share-based payments:		
Share-based payments – Management Equity Plan	-	-
Share-based payments – Employee Share Incentive Plan	-	3
Share-based payments – Performance Share Plan	-	2
<b>Total equity-settled share-based payments</b>	<b>-</b>	<b>5</b>
Cash-settled share-based payments:		
Share-based payments – Long Term Incentive Plan	2	-
<b>Total cash-settled share-based payments</b>	<b>2</b>	<b>-</b>
<b>Total share-based payments expense</b>	<b>2</b>	<b>5</b>

The ESIP and PSP schemes vested in the year ending 31 January 2022 and a management equity plan was inceptioned. In the year ended 31 January 2023 a long-term incentive plan was introduced.

### Shares held in trust

AA Corporation Limited holds certain deferred shares in AA Limited, with the beneficial entitlement held on trust respectively: (i) as to 20 million deferred shares, for the Company's ex-Chairman Bob Mackenzie pending the outcome of his litigation against the Company (see note 38) and (ii) as to the remaining 40 million deferred shares, for Basing BidCo Limited, the purchaser and immediate parent undertaking of AA Limited.

As at 31 January 2023, the following shares were held on trust by AA Corporation Limited:

	Deferred shares number
Total shares held on trust	60,000,000

## Notes to the consolidated financial statements (continued)

### 33 Share-based payments (continued)

#### AA Limited Cash Long Term Incentive Plan

In the year ended 31 January 2023, AA Limited (an indirect parent) implemented a Long Term Incentive Plan ("cash LTIP"), granting benefits to key members of senior management. These benefits vest based on certain performance conditions.

A vesting date of 31 January 2026 has been assumed for this scheme and it is expected to be settled in cash. On the basis of the above, the cash LTIP has been accounted for in line with IFRS 2, with the fair value of the cash LTIP, based on investment return multiples, being recognised over the expected life of the scheme and remeasured at each reporting date.

The vesting charge for the current year is £2m and is presented as a share-based payments expense (2022: £nil).

#### Management Equity Plan (MEP)

Basing TopCo Limited, an indirect parent of the Group, operates a management equity plan which grants senior management awards with vesting conditions linked to their continued employment. This plan has been accounted for as an equity settled share based payment, and where the participants directly benefit the AA Intermediate Co Limited group, the share based payment charge has been accounted for within the Group. The charge for the year ended 31 January 2023 was £nil (2022: £nil).

The fair value of awards under the plan was 5.3p each.

The fair value of the shares were calculated using a Monte Carlo simulation model. Key inputs to the model were as follows:

- Equity value – Based on the Basing TopCo Limited group's equity value inclusive of preference shares
- Expected term – Vesting date of March 2026 has been assumed
- Exercise price – Based on equity value of Basing TopCo Limited taking into account the ratchet mechanism inbuilt to the plan
- Volatility – 30% has been used following the review of a broad set of quoted comparators
- Risk free rate – 0.59% based on UK Government bond rates for 5 year period as at first grant date

The number of shares awarded were as follows:

	2022 Share awards outstanding number	New awards number	Leavers number	2023 share awards outstanding number
MEP	29,366,620	8,577,112	(1,227,787)	36,715,945

### 34 Ultimate parent undertaking and controlling party

The Group is a wholly owned subsidiary of AA Mid Co Limited, a company registered in England and Wales, UK whose registered office is Fanum House, Basing View, Basingstoke, RG21 4EA. At 31 January 2023, the ultimate parent undertaking and controlling party is Basing ConsortiumCo Limited, whose registered office is 3rd Floor 44 Esplanade, St Helier, JE4 9WG, Jersey. The parent of the largest group to consolidate these financial statements is AA Limited, whose registered office is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA. The parent of the smallest group to consolidate these financial statements is AA Intermediate Co Limited, whose registered address is the same.

Copies of the consolidated AA Limited financial statements are available from the website [www.theaacorporate.com/investors](http://www.theaacorporate.com/investors).

## Notes to the consolidated financial statements (continued)

### 35 Accounting standards, amendments and interpretations

#### New accounting standards, amendments and interpretations adopted in the year

The Group did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements.

#### New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations have been issued and will be effective for financial years beginning after 1 February 2023 but have not been applied by the Group in these financial statements. These are set out below (effective dates are UK effective dates). For those new accounting standards other than IFRS 17, management are currently at an early stage of assessing their impact to the Group.

- Amendments to IFRS 16, 'Leases' on leases on sale and leaseback (effective date 1 January 2024)
- Amendments to IAS 1, 'Presentation of financial statements' on non-current liabilities with covenants (effective date 1 January 2024)
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 (effective date 1 January 2023)
- Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction (effective date 1 January 2023)
- IFRS 17, 'Insurance contracts' as amended in December 2021 (effective date 1 January 2023) – see below

#### IFRS 17

The Group will apply IFRS 17 with effect from 1 February 2023. IFRS 17 introduces a significant change to the accounting for insurance contracts. Our impact assessment is currently ongoing because transition work has not been finalised. The key transition activities that remain ongoing are:

- Continued refinement of the accounting policies and reporting processes, including embedding of operational controls, used in the production of IFRS 17 results;
- Continued assessment and challenge of the key assumptions, judgements and estimation techniques applied in the Group's IFRS 17 methodologies; and
- Continued testing of systems and processes that is currently underway.

The application of IFRS 17 will be retrospective. The transition date for the Group is therefore 1 February 2022 and the Group will restate the 31 January 2022 Balance Sheet (the opening balance sheet) such that a comparative income statement can be presented in the 31 January 2024 financial statements.

#### *Recognition*

The Group has identified insurance contracts written within the scope of IFRS 17. The insurance contracts written by the Group are largely Roadside contracts underwritten by the Group where the fixed fee exemption does not apply. The Group has identified one portfolio of contracts which will be allocated to groups based upon the expected profitability, ensuring that groups of contracts contain only contracts issued no more than one year apart. All other contracts written and sold by the Group are outside of the scope of IFRS 17.

#### *Measurement*

All of the Group's insurance contracts written have been assessed as eligible for the Premium Allocation Approach (PAA). This is primarily because most contracts provide coverage for one year or less.

## Notes to the consolidated financial statements (continued)

### 35 Accounting standards, amendments and interpretations (continued)

#### IFRS 17 (continued)

Under the PAA, the liability for remaining coverage at initial recognition is measured as the premium received less deferred acquisition costs incurred. The Group has not taken advantage of the exemption to expense acquisition costs under the PAA and has elected to defer such costs over the groups of contracts to which the costs relate.

Subsequently, the liability for remaining coverage is increased for any premiums received and then decreased by the amount recognised as insurance revenue for services provided. As permitted under IFRS 17, the Group has elected not to adjust the liability for remaining coverage for the time value of money and the effect of financial risk.

If at any time before, or during coverage, facts and circumstances indicate that a Group of contracts is onerous, then the Group will increase the liability for remaining coverage by including a loss component, with the loss being recognised in the income statement.

For the Roadside insurance contracts where claims (breakdown recoveries) are incurred and settled in a short time period (within the same day) there is not expected to be any liability for incurred claims outstanding at any point in time.

#### *Presentation & disclosure*

IFRS 17 will significantly change the presentation of the results and statement of financial position. The main changes for the Group are:

- Portfolios of insurance contracts that are assets and liabilities will be presented separately on the face of the statement of financial position;
- All rights and obligations arising from a portfolio of insurance contracts will be presented on a net basis, therefore, balances such as insurance receivables and unearned premium will no longer be presented separately;
- The effect of the time value of money and other financial risks and changes thereof will be presented as insurance finance income or expense (IFIE) outside of the insurance result.

#### *Policy choices and judgements*

The Group has applied the following policy choices and judgements in setting the IFRS 17 methodology:

Area	Methodology / Judgement
PAA eligibility	The Group has developed a PAA eligibility framework for contracts that are not automatically eligible for PAA. This framework assesses the significance of differences between the GMM and PAA. The Group's preliminary conclusion is that all contracts are eligible for PAA.
Deferred acquisition costs	The Group has elected to defer acquisition cost under the PAA, and not take advantage of expensing acquisition costs where it may have been eligible. There is judgement in determining what costs are acquisition costs and judgement in determining the period over which those costs are recognised in the liability for remaining coverage (LRC).

#### *Impact*

The PAA is largely consistent with the current accounting treatment when measuring the liability for remaining coverage and liability for incurred claims with the following points of note relevant for the Group.

## Notes to the consolidated financial statements (continued)

### 35 Accounting standards, amendments and interpretations (continued)

#### IFRS 17 (continued)

Area	Change from existing accounting	Impact on equity on transition
Deferred acquisition costs	There is a change in the definition of what constitutes an acquisition cost with IFRS 17 permitting both costs from successful and unsuccessful activity, inclusion of an element of acquisition overhead, and where applicable allocation of the costs to future groups of contracts. Currently the Group defers acquisition costs over the current contract and under IFRS 17 the Group will defer them over the future (renewal) contracts where appropriate.	Increase
Loss component	Our identification of onerous contracts under IFRS 17 will be at a more granular level than our current accounting. Any groups of contracts that are onerous will recognise a loss component.  Currently no equivalent of a loss component is recognised. Our initial analysis suggests a small loss component will be recognised on transition although business changes post General Insurance Pricing Practices will reduce the loss component over time	Decrease

#### *Transition*

Given the application of the PAA and the policy choices and judgements above, the Group is expecting upon transition to apply IFRS 17 using the full retrospective approach.

### 36 Assets classified as held for sale

During the prior year, the sale of two properties was approved. The sale of one of these properties completed in the year and resulted in a profit on sale of £1m which is included in the consolidated income statement. The sale of the second property is expected to complete in H1 FY24 and is held for sale at the lower of carrying amount and fair value less cost to sell, which has resulted in an impairment of £1m, also included in the consolidated income statement.

The assets classified as held for sale were:

	<b>2023</b>	<b>2022</b>
	<b>£m</b>	<b>£m</b>
Property, plant and equipment – property 1	-	5
Property, plant and equipment – property 2	2	3
	<b>2</b>	<b>8</b>

## Notes to the consolidated financial statements (continued)

### 37 Prior year restatements

Due to a change in accounting policy, during the year the Group began deferring Roadside acquisition costs, where the risk is underwritten by the Group. This has resulted in a restatement of the prior year financial statements.

	Previously reported 31 January 2022	Change in accounting policy – effect of restatement	Restated 31 January 2022
	£m	£m	£m
<b>Consolidated statement of financial position</b>			
Trade and other receivables	209	15	224
Deferred tax liability	(54)	(3)	(57)
Retained earnings as at 1 February 2022	(217)	12	(205)

Note: There was no restatement on the consolidated income statement for year ended 31 January 2022.

Disposals of cost and accumulated depreciation in respect of certain fully depreciated right-of-use assets had been overstated, due to an error, in the right-of-use assets disclosure note for the year ended 31 January 2022. Below is the impact on the right-of-use assets note as at 31 January 2022.

Right-of-use assets at 31 January 2022	Cost			Accumulated depreciation and impairment		
	Reported £m	Effect of restatement £m	Restated £m	Reported £m	Effect of restatement £m	Restated £m
Vehicles & equipment						
<b>At 1 February 2021</b>	75	-	75	41	-	41
Additions	16	-	16	21	-	21
Disposals	(23)	13	(10)	(21)	13	(8)
<b>At 31 January 2022</b>	68	13	81	41	13	54

## Notes to the consolidated financial statements (continued)

### 38 Events after the reporting period

#### Settlement of litigation

During the course of the year, the litigation with the Company's ex-Chairman Bob Mackenzie against the Company reached a conclusion (see note 22). As a consequence, the 20 million deferred shares previously held on trust by the AA Corporation Limited pending the outcome of the litigation were transferred to be held on trust for Basing BidCo Limited, the purchaser and immediate parent undertaking of AA Limited. Therefore, the beneficial entitlement to all 60 million deferred shares in AA Limited is now held on trust by AA Corporation Limited for Basing BidCo Limited.

#### A11 Loan Note issue

On 6 February 2023 AA Bond Co Limited issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023 tendered by existing note holders as part of a liability management exercise. A further £10m of Class A7 Notes were purchased from existing bond holders on 3 March 2023 and redeemed. A further £103m of Class A7 Notes were voluntarily repaid on 16 May 2023 and redeemed.

#### Facility Renewal

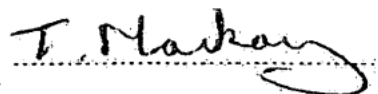
On 6 February 2023 the Group renewed and increased its Liquidity Facility by £15m to a total of £175m which remains undrawn and on 10 February 2023 the Group increased its Senior Term Facility by £15m to a total of £165m. The additional £15m Senior Term Facility commitments were drawn on 24 March 2023 and a new interest rate swap was transacted which exchanges SONIA for a fixed interest rate of 4.14% thereby fixing the incremental £15m of Senior Term Facility borrowings at 7.17% through to 10 March 2026.

## Company statement of financial position as at 31 January

	Notes	2023 £m	2022 £m
<b>Non-current assets</b>			
Investments in subsidiaries	2	1,661	1,661
<b>Current assets</b>			
Amounts owed by subsidiary undertakings	3	476	476
<b>Total assets</b>		<b>2,137</b>	<b>2,137</b>
<b>Current liabilities</b>			
Amounts due to parent undertakings	4	(1,756)	(1,756)
<b>Total liabilities</b>		<b>(1,756)</b>	<b>(1,756)</b>
<b>Net assets</b>		<b>381</b>	<b>381</b>
<b>Equity</b>			
Called up share capital	5	361	361
Retained earnings		20	20
<b>Total equity</b>		<b>381</b>	<b>381</b>

The result for the financial year of the Company is £nil (2022: £nil).

The financial statements on pages 92 to 99 were approved by the Board of Directors on 9 June 2023 and signed on its behalf by:



T O Mackay  
Chief Financial Officer

The accompanying notes are an integral part of this Company statement of financial position.

## Company statement of changes in equity

	Share capital £m	Retained earnings £m	Total equity £m
At 1 February 2021	-	20	20
Issue of share capital	361	-	361
<b>At 31 January 2022</b>	<b>361</b>	<b>20</b>	<b>381</b>
Result for the year	-	-	-
<b>At 31 January 2023</b>	<b>361</b>	<b>20</b>	<b>381</b>

The accompanying notes are an integral part of this Company statement of changes in equity.

## Notes to the Company financial statements

### 1 Presentation of financial statements and Company accounting policies

#### 1.1 Presentation of financial statements

AA Intermediate Co Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in England and Wales, UK. The address of the Company's registered office is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006. The financial statements are prepared under the historical cost convention and on a going concern basis. See also note 1.2(a) of the consolidated financial statements.

No income statement is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2023. The financial statements are prepared in sterling and are rounded to the nearest million pounds (£m).

#### 1.2 Basis of preparation

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- IAS 1 paragraph 10(d) (statement of cash flows)
- IAS 1 paragraph 16 (statement of compliance with all IFRS)
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements)
- IAS 1 paragraph 111 (cash flow statement information)
- IAS 1 paragraphs 134-136 (capital management disclosures)
- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment'
- IAS 7, 'Statement of cash flows'
- IAS 8 paragraphs 30 and 31
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group
- IFRS 7, 'Financial Instruments: Disclosures'

The Company did not identify any new accounting standards coming into effect in either the current financial year or the financial year ending 31 January 2024 with an expected material impact on the financial statements.

#### 1.3 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

##### a) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date or if appropriate at the forward contract rate. All differences are taken to the income statement.

## Notes to the Company financial statements (continued)

### 1.3 Accounting policies (continued)

#### b) Investments in subsidiaries

Investments in subsidiaries are held at cost less impairment.

The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless they arise on a previously revalued fixed asset.

The recoverable amount of fixed assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the rate of return expected on an investment of equal risk. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

#### c) Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. They are classified according to the substance of the contractual arrangements entered into. The Company recognises loss allowances for expected credit losses (ECLs) on relevant financial assets.

#### d) Critical accounting estimates and judgements

Estimates are evaluated regularly and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are principal estimates and assumptions made by the Company.

Management has exercised judgement in applying the Group's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based are reviewed on an ongoing basis and include the assumptions for future growth of cash flows to support the value in use calculations for the investment impairment review.

##### *Investments*

The Group tests the investment balances for impairment triggers annually and where a trigger is noted, a full quantitative assessment is performed. The recoverable amounts of the investments have been determined based on value in use calculations which require the use of estimates. Management has prepared discounted cash flow forecasts based on the latest strategic plan.

In performing its impairment testing on its investment in subsidiaries, the Company prepared a traditional value in use model as described in IAS 36 which was also used in prior years. This comprises an enterprise value model which deducts net debt as at 31 January 2023 and discounts estimates of future cash flows at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. IAS 36 considers that the appropriate discount rate for a value in use calculation should take into account weighted average cost of capital, incremental borrowing rate and other market borrowing rates in making such an estimate and the Company uses a discount rate calculated on this basis. Estimates of future cash flows do not include cash inflows or outflows from financing activities or income tax receipts or payments as these are already taken into account in the discount rate.

## Notes to the Company financial statements (continued)

### 1.3 Accounting policies (continued)

#### d) Critical accounting estimates and judgements (continued)

##### *Investments (continued)*

This differs from the AA Limited company financial statements in which it was considered that using an alternative 'dividend distribution model' would best reflect an investor's assessment of the return required given the short term risks specific to the AA Limited group and industry. In that alternative value in use model, estimates of future cash flows included cash outflows relating to taxation and financing activities, reflecting an assessment of future refinancing and interest costs that the AA Limited group expects to arise as its existing debt is refinanced over the next 5 years.

As the Company is a holding company within the WBS ringfence, it and its subsidiary investments will continue operating as a group in the event that there was a failure to refinance the Group's class B notes. However, companies above the level of AA Mid Co Limited could face a significantly higher level of risk in those circumstances. The alternative value in use valuation approach used at an AA Limited level is therefore not considered to be an appropriate valuation methodology for the Company to use in its own investment impairment testing.

On this basis, the Company has made the critical accounting judgement to continue to perform impairment testing of its investment in subsidiaries using the traditional enterprise value model which deducts net debt, as outlined above.

Management has performed sensitivity analysis as part of its impairment assessment on the Company's investments in subsidiaries (see note 2 for details).

##### *Intercompany receivables*

The assessment of credit loss allowances for intercompany receivables requires judgement to assess the collectability of intercompany balances. Formal intercompany loan balances are reviewed on a case-by-case basis for impairment.

## 2 Investments in subsidiaries

	2023 £m	2022 £m
Investment in subsidiary at cost		
At 1 February and 31 January	<b>1,661</b>	1,661

The Company has performed impairment testing at 31 January 2023 to compare the recoverable amount of the investments in subsidiaries to their carrying value.

The impairment test was principally performed on the directly held subsidiary which is supported by cash flow projections of the underlying AA Acquisition Co Limited group. The recoverable amount of the investment was determined based on a value in use calculation using cash flow projections from the Group's five-year plan. For the year ended 31 January 2023, the Company used the five-year plan, adjusted for expected changes, covering the four years up to 31 January 2027 and a 1.95% expectation of growth in the subsequent year. For the purposes of the impairment test, terminal values have been calculated using a 1.95% (2022: 2.01%) inflationary growth assumption in perpetuity based on the IMF's UK long-term growth rate.

## Notes to the Company financial statements (continued)

### 2 Investments in subsidiaries (continued)

Using an enterprise value model which deducts net debt as at 31 January 2023, cash flows were discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This was determined as a pre-tax rate of 11.7% (2022: 10.2%). The equivalent post-tax rate was 8.8% (2022: 7.7%). The use of this value in use calculation and the determination of its inputs were consistent with the impairment test performed in the prior year. The result of this impairment test was that there was a significant amount of headroom and therefore no indicators of impairment in the value of investments in subsidiaries were identified (2022: no indicators of impairment).

The value in use calculation used is the most sensitive to the assumptions used for growth and to the discount rate. Changes to these assumptions would impact the value of the headroom calculated. However, neither a 1% increase in the discount rate in the current year nor a 1% reduction in the terminal value growth rate would result in an impairment in the current year. In any case, management believes that neither of these scenarios reflect the most likely true outcome and accordingly, no impairment has been recognised in the current year.

### 3 Amounts owed by subsidiary undertakings

	2023 £m	2022 £m
Amounts owed by subsidiary undertakings	476	476
	<b>476</b>	<b>476</b>

The amounts owed by parent and subsidiary undertakings are unsecured, have no repayment terms and bear no interest.

### 4 Amounts due to parent undertakings

	2023 £m	2022 £m
Amounts owed to parent undertakings	1,756	1,756
	<b>1,756</b>	<b>1,756</b>

The amounts owed to parent and subsidiary undertakings are unsecured, have no repayment terms and bear no interest.

### 5 Called up share capital

	2023 £m	2022 £m
<b>Allotted, called up and fully paid</b>		
360,893,049 (2022: 360,893,049) ordinary shares of £1 each	361	361
	<b>361</b>	<b>361</b>

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank pari passu on a winding up.

During the year, the Company did not pay or propose a dividend (2022: £nil).

## Notes to the Company financial statements (continued)

### 6 Auditors' remuneration

The fee for the audit of these financial statements was £43k (2022: £40k).

### 7 Employee costs

The Company had no employees or employee costs in the current or prior year. Directors' remuneration is disclosed in Note 8 of the Group financial statements.

### 8 Subsidiary undertakings

All subsidiaries are wholly owned (except where stated) and incorporated and registered where stated below.

All subsidiaries are consolidated in the Group financial statements.

The principal subsidiary undertakings of the Company at 31 January 2023 are:

Name	Country of incorporation / registered office key	Class of shares held
AA Acquisition Co Limited <sup>1,3</sup>	England and Wales, UK / A	Ordinary
AA Bond Co Limited <sup>2, 3</sup>	Jersey / B	Ordinary
AA Corporation Limited	England and Wales, UK / A	Ordinary
AA Financial Services Limited	England and Wales, UK / A	Ordinary
AA Senior Co Limited	England and Wales, UK / A	Ordinary
A A The Driving School Agency Limited <sup>1</sup>	England and Wales, UK / A	Ordinary
Automobile Association Developments Limited	England and Wales, UK / A	Ordinary
Automobile Association Insurance Services Limited	England and Wales, UK / A	Ordinary
Drivetech (UK) Limited <sup>1</sup>	England and Wales, UK / A	Ordinary
Prestige Fleet Servicing Limited <sup>1</sup>	England and Wales, UK / A	Ordinary
Used Car Sites Limited	England and Wales, UK / A	Ordinary

The other subsidiary undertakings of the Company at 31 January 2023 are:

Name	Country of incorporation / registered office key	Class of shares held
A.A. Pensions Trustees Limited	England and Wales, UK / A	Ordinary
AA Brand Management Limited	England and Wales, UK / A	Ordinary
AA Garage Services Limited	England and Wales, UK / A	Ordinary
AA Ireland Pension Trustees DAC	Ireland / C	Ordinary
AA Pension Funding GP Limited <sup>1</sup>	Scotland, UK / D	Ordinary
AA Pension Funding LP <sup>4</sup>	Scotland, UK / D	Membership Interest
Automobile Association Holdings Limited	England and Wales, UK / A	Ordinary and Deferred redeemable non-voting special dividend
Automobile Association Insurance Services Holdings Limited	England and Wales, UK / A	Ordinary
Automobile Association Services Limited	England and Wales, UK / A	Limited by guarantee
Accident Assistance Services Limited <sup>1</sup>	England and Wales, UK / A	Ordinary
Intelligent Data Systems (UK) Limited <sup>1</sup>	England and Wales, UK / A	Ordinary
Personal Insurance Mortgages and Savings Limited	England and Wales, UK / A	Ordinary
The Automobile Association Limited <sup>2</sup>	Jersey / B	Ordinary

## Notes to the Company financial statements (continued)

### 8 Subsidiary undertakings (continued)

<sup>1</sup> These entities are exempt from the requirements of the Companies Act 2006 relating to the audit of financial statements under s479A-C.

<sup>2</sup> This company also has a UK branch establishment.

<sup>3</sup> Directly owned by the Company; all other subsidiaries are indirectly held.

<sup>4</sup> This partnership is fully consolidated into the Group financial statements and the Group has taken advantage of the exemption (as confirmed by regulation 7 of the Partnerships (Accounts) Regulations 2008) not to prepare or file separate financial statements for this entity.

#### Registered office key

Registered office	Key
Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England	A
22 Grenville Street, St Helier, Jersey, JE4 8PX	B
6th Floor, South Bank House, Barrow Street, Dublin 4, Ireland	C
20 Castle Terrace, Edinburgh, EH1 2EN, Scotland	D

### 9 Ultimate parent undertaking and ultimate controlling party

The Company is a wholly owned subsidiary of Basing BidCo Limited, a company incorporated and domiciled in Jersey.

The ultimate controlling party and parent undertaking is Basing ConsortiumCo Limited, whose registered office is 3rd Floor, 44 Esplanade, St Helier, JE4 9WG, Jersey.

The parent of the largest group to consolidate these financial statements is AA Limited, whose registered office is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA. The parent of the smallest group to consolidate these financial statements is AA Intermediate Co Limited, whose registered address is the same.